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International Development Committee

Fair Trade and Development

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Volume II

Oral and written evidence

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International Development Committee

The International Development Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for International Development and its associated public bodies.

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Mr Marsha Singh MP (Labour, Bradford West)
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John Barrett MP (Liberal Democrat, Edinburgh West) was also a member of the Committee during the inquiry.

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The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the Internet via www.parliament.uk.

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Committee staff
The staff of the Committee are Carol Oxborough (Clerk), Matthew Hedges (Second Clerk), Anna Dickson (Committee Specialist), Chlöe Challender (Committee Specialist), Alex Paterson (Media Officer), Ian Hook (Committee Assistant), Jennifer Steele (Secretary) and James Bowman (Senior Office Clerk).

Contacts
All correspondence should be addressed to the Clerk of the International Development Committee, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 1223; the Committee’s email address is indcom@parliament.uk
Witnesses

Tuesday 27 February 2007

Hon Roosevelt Skerrit, Prime Minister of the Commonwealth of Dominica, and Ms Harriet Lamb, CBE, Executive Director, Fairtrade Foundation

Ms Sandra Taylor, Senior Vice President, Corporate Social Responsibility, Starbucks Coffee Company, Mr Cliff Burrows, Senior Vice President and President, Europe, Middle East and Africa, Starbucks Coffee Company, and Mr Mike Barry, Head of Corporate Social Responsibility, Marks & Spencer

Tuesday 13 March 2007

Mr Monjurul Haque, Artisan Hut Bangladesh, Ms Erica Kyere, Information and Education Officer, Kuapa Kokoo Limited, Ms Safia Minney, Director, People Tree, and Ms Sophi Tranchell, Managing Director, Divine Chocolate Limited

Ms Judith Batchelar, Director of Sainsbury’s Own Brand, Sainsbury’s, Ms Hilary Parsons, Head of Corporate Social Responsibility, Nestlé, and Ms Emma Reynolds, Government Affairs Manager, Tesco

Tuesday 27 March 2007

Professor Douglas Holt, Said Business School, University of Oxford, and Ms Sheila Page, Overseas Development Institute

Mr Owen Tudor, Head, European Union and International Relations Department, Trade Union Congress (TUC) and Mr Bert Schouwenburg, Regional Organiser, GMB London Region

Mr Paul Chandler, Chief Executive and Mr Michael Gidney, Policy Director, Traidcraft

Tuesday 17 April 2007

Mr Gareth Thomas MP, Parliamentary Under-Secretary of State, Mr Owen Barder, Director, Global Development Effectiveness Division, and Ms Laura Kelly, Senior Agriculture and Trade Adviser, International Trade Department, Global Development Effectiveness Division, Department for International Development and Ms Amanda Brooks, Director, Trade Negotiations and Development, Europe and World Trade Department, Department of Trade and Industry
Written evidence

Written evidence submitted by witnesses who also gave oral evidence:

1. Department for International Development Ev 71
2. Divine Chocolate, Trading Visions, Comic Relief and Kuapa Kokoo Ev 83; Ev 86
3. Fairtrade Foundation Ev 88; Ev 104
4. Marks & Spencer Ev 106
5. Nestlé Ev 111
6. People Tree Ev 112
7. Sainsbury’s plc Ev 115; Ev 116
8. Starbucks Coffee Company Ev 117
9. Tesco Stores Ltd Ev 122
10. Trades Union Congress (TUC) Ev 125
11. Traidcraft Ev 132

Other written evidence:

12. ActionAid Ev 138; Ev 141
13. Banana Link Ev 142
14. Biscuit Cake Chocolate & Confectionery Association (BCCCA) Ev 146
15. Business Action for Africa Ev 148
16. Cafédirect plc Ev 153
17. Caribbean Banana Exporters Association (CBEA) Ev 157
18. Co-operative Group Ev 159
19. Co-operative Party Ev 162
20. Ethical Trading Initiative (ETI) Ev 164
21. Simon Forster Ev 168
22. International Institute for Environment and Development (IIED) Ev 169
23. Masterfoods UK Ev 171
24. Progressio Ev 172
25. Scottish Catholic International Aid Fund Ev 174
26. Shared Interest Society Ltd Ev 175
27. The Sustainable Enterprise Research Group Ev 180
28. Tropical Wholefoods / FM Foods Ltd Ev 182
29. Twin/Twin Trading Ev 185
30. War on Want Ev 187
31. Zaytoun Ev 188
List of unprinted written evidence and papers

Additional papers have been received from the following and have been reported to the House but to save printing costs they have not been printed and copies have been placed in the House of Commons Library where they may be inspected by Members. Other copies are in the Parliamentary Archives and are available to the public for inspection. Requests for inspection should be addressed to The Parliamentary Archives, Houses of Parliament, London SW1A 0PW (Tel 020 7219 3074). Hours of inspection are from 9:30am to 5:00pm on Mondays to Fridays.

Other papers:


*Strategic fair trade funding programme*, Fairtrade Labelling Organisation, March 2007

*Fairtrade impact: summary of studies undertaken since 2003*, Fairtrade Foundation, undated 2007

Letter from Trading Visions, 8 May 2007
Oral evidence

Taken before the International Development Select Committee

on Tuesday 27 February 2007

Members present:

Malcolm Bruce, in the Chair

John Barrett
John Battle
John Bercow
Richard Burden
James Duddridge
Ann McKechin
Joan Ruddock
Mr Marsha Singh

Witnesses: Hon Roosevelt Skerrit, Prime Minister of the Commonwealth of Dominica, and Ms Harriet Lamb, CBE, Executive Director, Fairtrade Foundation, gave evidence.

Q1 Chairman: Good morning and welcome. Thank you for coming to give evidence. This is the Committee's first session of evidence in its inquiry into fair trade products, and it is probably timely given that it is Fairtrade Fortnight. We have two sets of witnesses this morning and each will give evidence for about an hour. For the benefit of our witnesses, first we will ask questions of Harriet Lamb and then we will put questions to Roosevelt Skerrit. To begin with, perhaps Harriet Lamb can spend a couple of minutes on the Fairtrade Foundation and what it involves. Then I will ask Mr Skerrit to spend a couple of minutes on himself and his engagement in fair trade issues.

Ms Lamb: I thank everybody very much. We welcome this inquiry into fair trade and development. The Fairtrade Foundation is a charity set up and now owned by 13 development NGOs. It was set up as a response to the commodity crisis that affected them at that time.

Q2 Chairman: Where was it started?

Ms Lamb: It started in 1992 and the first product with the FAIRTRADE Mark appeared in 1994.

Q3 Chairman: Was that in the UK?

Ms Lamb: Yes. Originally, it was started by Mexican coffee farmers connecting with the Dutch equivalent of the Fairtrade Foundation in response to the coffee crisis that affected them at that time.

Q4 Chairman: I suppose that a question which you have half-answered is: what do you believe Fairtrade can do in terms of development? It is still a tiny proportion of the commodities traded, and even of the commodities in the fair trade package it is a very small proportion. What do you believe is the contribution that Fairtrade can make to development as opposed to what might be called niche markets? If you think it makes a contribution how do you think it can be extended to be a much more significant component of the current Fairtrade markets and potentially new markets?

Ms Lamb: First, it matters greatly to those five million farmers, workers and their families who participate in Fairtrade now. For them it is not a niche but their livelihood; it is their ability to stay on their land, build their co-operatives and survive as farmers. We must take account of that. What we can do in terms of development with a premium to invest in the future and therefore begin to build their businesses and invest in their communities. The mechanism to make that work is the FAIRTRADE Mark as the independent consumer label that the public recognises and is available on products from a whole range of companies. We now work for 260 companies that offer 2,500 different products. The public can show its support and that provides a mechanism by which companies can engage in making trade fair. That is what we set out to do. I think you can see the explosion of interest among the public in Fairtrade and overwhelming support for it up and down the country. I am sure that some Members of the Committee have Fairtrade towns in their constituencies and that people have been knocking on their doors and the doors of town halls, local shops and supermarkets to encourage them to stock Fairtrade. That public support for Fairtrade is working. More and more companies offer Fairtrade products. Last year we saw rates of growth of 46% which means that more and more farmers and workers in more countries can have the benefits of Fairtrade.
lining up to do the same. That gives us an indication of where we can take the idea. We have no doubt that there is a very long way to go. As you have said, looking at global trade the percentages are tiny, but that is why in a way we are putting before the Department for International Development a request for major financial support. I believe that in the first 10 years— it is not a very long time for a radical concept given what Fairtrade is asking for—we have shown that the concept can work. It can work for the farmers in development and it can work in the market. That gives us a very strong base on which to build so we can scale it up to the next level. To do that we need investment in our capacity to work with farmers and small producers in developing countries so that more of them can get organised and meet the Fairtrade standards and the very rigorous standards of supermarkets and other companies that want to buy their products. It can also enable us to invest in new product development and have an innovation fund to tackle many other commodities where farmers have not yet been able to access the Fairtrade market because of the inability to establish standards. Examples might be jute, soya, seafood or whole new sectors like mining or tourism. It is to enable us to go into those new areas that we seek major international donor finance.

Q5 Chairman: How do you respond to the criticism that, first, the premium that attaches to Fairtrade products may effectively depress the value of non-Fairtrade products; and, second, that you have to be organised to be part of the Fairtrade markets and so if you are a small producer living in a remote area that is not organised you do not get the benefits of Fairtrade and may even suffer a lower commodity price for your limited range of products?

Ms Lamb: To take the first point—it supposes a purely theoretical free market that bears no relationship to the reality of Fairtrade, although that criticism has been put forward there is no evidence to show that the success of Fairtrade to date has had any impact in depressing prices within the wider market for people who are not able to participate in Fairtrade. Indeed, all the evidence we have suggests the exact opposite, that because through Fairtrade farmers are organised and have access to markets and begin to understand more about how international commodity markets work and receive a fair price perhaps for some of their coffee, both they and the neighbouring co-operatives in the area are, if anything, able to push up the price of coffee for everybody even in the conventional market as well. That is very much the evidence we have to date. I believe that the question of depressed prices would apply only in a situation where perhaps everybody could automatically become Fairtrade-certified and sell their products in that way. That is not the case. The market is still very small and many producer groups are certified only as there is increasing market access. Therefore, we bring in more producers as there is more market for them to sell into, so it is not that people grow more coffee on the speculative hope that they will be able to sell it as Fairtrade. That is simply not happening. I also believe that critics cannot have it both ways. They cannot say that this is both a tiny and insignificant niche and it is depressing markets. The two cannot go hand in hand. The reality is that we are a small but growing percentage of that trade and it shows that one can pay a fair price and still succeed commercially. That then gives companies the space to pay far more for the products that they buy.

Q6 Chairman: The point that we learnt when we were in Ethiopia talking to the farmers’ co-operative was that the majority of coffee producers were not in the co-operative; indeed, the co-operative was engaged with its own marketing organisation in trying to sell the merits of being in the co-op as giving growers access to better prices, but the majority did not join. There was an argument that somehow or other one had to be organised; if not, one would lose out.

Ms Lamb: I want to come to that point. Organisation is at the heart of our system. We believe that as long as people are individual farmers—I am selling my coffee and you are selling your coffee—they cannot begin to influence their position in the supply chain. They will always remain very vulnerable and will have to sell their coffee as quickly as they can to the first middle man who comes to their village. They will not be able to access credit, for example, except by going to a moneylender and paying extortionate interest rates that puts them in hock to that individual. That is the vicious cycle in which too many individual farmers are caught. That is why organisation is at the heart of Fairtrade standards. When farmers come together, form an organisation and are then able perhaps to export their crop or move further up the chain, perhaps doing their own coffee washing or whatever it might be, that puts them in a position to obtain pre-finance and bank loans at much more reasonable rates. They can understand the way that markets work and therefore perhaps store their coffee until the price is a bit higher or sell it direct to somebody and get a higher price, or move into organic certification and get a higher price, or move into premium coffee, or resort to different ways to add value to their crop. One can do that only if one is organised. I believe that for the public the first point of understanding of Fairtrade is to do with the premium because it gives a direct benefit; it builds schools and puts clean water into villages that have had none. I think that is the most tangible part of Fairtrade. But what the farmers very often say to us is the most important part of Fairtrade is the organisation because that is the basis of long-term sustainable change. Are there many farmers out there who are not organised? Of course there are. There are 25 million smallholders just in coffee alone. Our hope is that gradually as we grow the market more of those organised farmers can access the market and benefit from it.

Q7 James Duddridge: On Monday morning I went along to Shoebury High School in my constituency.

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1 Ev 88
It was running an assembly based on fair trade. The first question was whether anybody knew anything about fair trade. At least half the hands shot up. There has been an enormous increase in the awareness of Fairtrade and, following on from that, increasing sales. What are the key factors to which you would attribute that increase in awareness of fair trade?

Ms Lamb: I love it when I visit kids who “get” fair trade because it just makes sense. They cannot believe that not all trade is fair. I believe that is an indication that the public as a whole has a natural sense of common decency and therefore naturally warms to the idea of Fairtrade. Our job in the early years has been to build awareness that there is a problem in mainstream trade because obviously people are unaware of that. Once people understand the scandal that we still have a world where the people who have grown the world’s best cocoa for 100 years do not have clean drinking water they automatically want to do something about it and warm to the idea. What is great about Fairtrade is that it is something very pragmatic that you, I and everybody can do. As we rush round the shops in a hurry with our kids screaming we can reach for products with the FAIRTRADE Mark because we all buy coffee, tea, nuts and orange juice. I believe the key to the success is that it is an idea that appeals to the public and it is an easy and an accessible way for everyone to play their part in tackling poverty. Our strategy at the Fairtrade Foundation has been to work in collaboration with other organisations, such as our owners and members, for example the Women’s Institute, Oxfam and the church movement, to take the ideas out to the wider public and also to work in co-operation with the companies that have been very much pioneers in developing Fairtrade and working with their own promotions to the public. I believe that the two coming together have enabled us to reach a situation where now well over half the public recognise the FAIRTRADE Mark because we all buy coffee, tea, nuts and orange juice. I believe the key to the success is that it is an idea that appeals to the public and it is an easy and an accessible way for everyone to play their part in tackling poverty.

Q8 James Duddridge: What is success? Is there a certain market share of Fairtrade products that you are aiming at, or are you aiming at influencing the whole market so that a supermarket will say that this is Fairtrade and something else is not? Will the whole supermarket be subject to the same standards that you have applied to your branding, even if they do not carry that specific branding?

Ms Lamb: Our most ambitious aim is to change the line of what is acceptable. Obviously, this year as a nation we are commemorating 200 years since the first bill to outlaw slavery. There was a point at which people were still defending slavery; they said that it was critical to economic success and the global trading system would fall apart without it. We have reached a situation today where although some slavery exists it is completely unacceptable. The norm has shifted. In the end, I think that is what we want to do with trade. We want to shift the norm so it is seen as completely unacceptable that any farmer should get paid below what it costs to grow a crop, or that any farmer who produces products that we in the rich world can enjoy should be living below the poverty line. That is our long-term aim. We hope to get there by showing, through the success of Fairtrade, public support which therefore gives a mandate to government to make the big and bold changes needed at the World Trade Organisation, because we also need to reform world trade rules if we are to make a difference. What do we ourselves want from the FAIRTRADE Mark? We believe it is absolutely critical that companies continue to use the FAIRTRADE Mark. That lies at the heart of the success we have seen to date. Without that we will have chaos with every company claiming its ethical credentials. The consumer will become very cynical and confused and say, “Stuff the lot of you! I’ll go back to buying whatever is cheapest.”

Q9 Mr Singh: First, if I buy something which does not bear the FAIRTRADE Mark should I feel guilty? Is it necessarily the case that products without that mark are the result of unfair trade? Second, you have talked a good deal about the UK. What about the international impact of Fairtrade?

Ms Lamb: It is our job to ensure that the consumer is never in a position where he or she cannot find Fairtrade products. Obviously, if you go into a little local shop you may not find any Fairtrade products, so it is ridiculous to make people feel guilty. I do not think that guilt is the way to change the world; I think it is all to do with feeling good about the positive things that you can do. We seek to make it as easy as possible for as many people as possible to do the things that will make them feel good. I believe that that is what Fairtrade does and that is why people warm to it. Therefore, we want to make sure that Fairtrade is as available as possible, but the question is: what about the other products in those stores? The problem is that you and I cannot know. How can we begin to tell? There are thousands of different products in the different shops, cafes, restaurants or different places where we consume these products. How can we ever begin to find our
way through the morass of companies’ claims. CSR² reports and what might or might not be said on the web? Realistically, we will never do that. Therefore, the only way we can have reassurance that a product really is fair is if it carries the independent FAIRTRADE Mark. I think you can compare the success we have had to date with what happened a number of years ago, for example the rush to be green. Everyone suddenly came out with green washing powders. Everyone said that their washing powders were good for the environment and there was an explosion of those products, but, because there was no independent certification of them, within a couple of years all of them shrank to the one brand that was there at the beginning. We do not want that to happen in Fairtrade. What the public has driven forward is too precious to let it be undermined by companies doing their own thing. That is why I come back to the critical importance of the FAIRTRADE Mark and why our ambition is to take it to very significant levels within the core commodities and to expand the range all the time. To go back to the international dimension, it is critical to our system that it is not just UK-based but that Fairtrade is part of an international system that operates across 80 different countries. There are 22 consumer markets across most of Europe, Australia, New Zealand, Japan, the US and Canada. The newest member is Mexico, and just this month a new initiative started in India. We also have an interest in other developing countries, but we imagine that India along with South Africa will be the next ones. That is where the markets are. We are working with farmers’ organisations in 58 different developing countries, so it is a truly global movement. Again, that is critical to our success. The work required to develop our standards in multi-stakeholder consultation with farmers, workers, companies, traders and independent experts is incredibly complex and difficult to get right. It would be worth it only if it was an international system like this. That is what gives us the ability to stay alive and have an impact on development and to attack poverty, because this is not about farmers being able to sell more cocoa or tea to the UK market alone but about them being able to sell right round the world, and that is absolutely critical to the potential market.

Q10 John Barrett: I should like to explore the capacity for growth of Fairtrade consumption in the UK. Can you outline the opportunities—you have touched on some of them—and also the problems in the market? Are the two key factors the price of the product and the quality of what is being sold? Even though a large number of outlets may be moving to Fairtrade products when the shopper is out there, the two key factors looked at are quality and price. I was reminded of what happened when I was speaking to one of the largest egg producers for Tesco. I said that I bought free range eggs from Tesco. He said that I should keep doing that because he made more profit on free range eggs than any other eggs. Is one of the ways to promote Fairtrade products through these outlets to ensure that those producing these products make more money out of them? There is a premium and, if people are not otherwise prepared to pay it, is this one of the ways to promote those products?

Ms Lamb: We argue that the quality of Fairtrade products is second to none, but there is a range. There are 2,500 products, some very much premium products and some more everyday products, but I have seen banana growers select the best bananas for their best customers. That is completely logical, because you do not give people who pay you a fair price your worst bananas; you keep those for the people who pay you the lowest price. In addition, very often farmers use the premium that they get through Fairtrade to invest in improved quality. Indeed, the information and market access that they get means they can learn about coffee-cupping and develop those skills so they improve quality. We are very confident about the quality of the Fairtrade products; indeed, sales would not be growing so fast and people would not be buying them again and again if they were not top quality. You can be sure that the public will never compromise on that. As to price, we are beginning to see a shift. As Fairtrade begins to scale up and become more mainstream we can see the price differential for the customer narrowing. It is critical that the price to the farmers’ organisation remains stable; that is what we guarantee, and that is never under threat as it would be in conventional trade. But the price differential that that translates into for the public is narrowing. For example, when Marks & Spencer switched all its tea and coffee to Fairtrade it did not increase the price; nor did Sainsbury when it switched all its bananas to Fairtrade. Those are indications of where we think it is going. Obviously, we want the products to sell and the public to buy them, so in a way we have to find a balance between protecting the price to the farmers’ organisation while obviously making it price competitive within that. It is not always possible to get the price difference down that far. I challenge you on one matter. Part of what we seek to do is to show that price is not the only concern in the public’s mind. The public is concerned not just with the quality of the product but other attributes of quality, and we believe that one of them is the quality of life of the farmers and workers. I believe that is overwhelmingly what the public has shown in its support for Fairtrade. What we now begin to see is a shift whereby companies and retailers can begin to compete less on price and perhaps more on their green and Fairtrade credentials. To us that is absolutely critical if we are to end the commodity crisis that has afflicted too many developing countries. You asked about profitability. Obviously, this is not about charity; it is about good business, but it must be commercially viable and that is fundamental to everything one does. We hope that in general, in relation to profit margins, companies take the industry average; they are making what they would normally make on a product that they are selling; otherwise, they will not do it. If it will cost them too much they will not stay with it. They need to make a profit and the public

² Corporate Social Responsibility (CSR).
understands that. We would be very concerned if anybody was profiteering, but we believe that we are moving to the industry norm in terms of the money that companies can make. A few companies are ready to invest and make much less than that, so as long as we are at the industry norm we think that is about right because that is viable and it can gain the mainstream markets that we are talking about. In terms of the opportunities, they are absolutely overwhelming. If you talk to any of the companies that we work with at the Fairtrade Foundation they will tell you that they are queuing up to offer more Fairtrade products. If anything, the cork in the bottle is our capacity to respond to their hunger to do Fairtrade. Companies are queuing up; the public wants it; and clearly producers want it. The question is: how can we scale it up so we can move more quickly to enable more farmers and workers to come in?

Q11 John Barrett: Is the Department for International Development playing any role in helping to scale it up?

Ms Lamb: To date, the grants that we have received from the Department for International Development have been critical in raising awareness, particularly in the early years, but even now we have a grant to work with schools. We could not keep up with the interest in schools. It has also given us a grant of £250,000 a year to take forward work on new product development, because that is where we think increased government grants would enable us to scale up to have more capacity to respond to the opportunities. The problems lie in setting those standards and enabling disadvantaged small farmers across the world to meet the standards of both supermarkets and Fairtrade. I think we have to accept that that takes time and investment; it needs groups that can accompany them and work with them. What these groups do is incredible. To get organised and democratically to decide how to spend the premium within their community is an extraordinary achievement and a huge responsibility for farmers. I have recently returned from the Windward Islands. We visited farmers in St Lucia. Farmers who eight years ago were not organised are now the most democratically organised people I have ever met. They meet every week, and every month they hold bigger meetings to talk about how to invest the premium in their communities. They walk tall as farmers in their communities because they are the people who have bought the sterilising equipment in the hospital and the computers in the schools, but to get there has taken them a long time. It is hard and difficult because one is asking people to give up their time and energy to work to a whole new set of standards. Therefore, we need the capacity to accompany farmers in that process and provide assistance, for example, to some of the very poor producers whom you probably met in Ethiopia to produce products to the standards that the market requires. That is one of the greatest problems that we seek to overcome by looking for further investment.

Q12 Mr Bercow: Between 2002 and 2005 there was a very sharp increase from 42 to 137 in the number of certified Fairtrade groups in Africa. It is perhaps at least as striking a fact, however, that the biggest single increase in the number of such groups has been in southern Africa. Presumably, that is attributable to the fact that it has a relatively well-developed supply side infrastructure. You have already talked about the obstacles to and opportunities for the development of this market, but I am particularly concerned at this point about the reality that substantial numbers of poor African countries for a variety of reasons, on which you may want further to elaborate, simply do not participate in Fairtrade at all. In seeking to ensure that they do, recognising the capacity constraints, would you be able to say to the Department for International Development that, based on some sort of quantitative or qualitative analysis, with additional investment, given the track record that you have had elsewhere, you could fairly confidently say that within y number of years there would be z level of improvement which would have x effect in terms of poverty reduction? In other words, given that a politician is always conscious of the bottom line in his department but also the opportunities for political boasting, what can you say to Ministers will be the output, not input, for a relatively modest additional investment by DFID?

Ms Lamb: What we can say is that with the relatively small DFID grant our record in meeting key performance indicators, if you like, has been second to none. You mentioned the increase in the number of groups from Africa, but we could also have regard to the fact that in 2003 there were about 150 products with the FAIRTRADE Mark and there are now 2,500 products. That is a stunning rate of growth for a relatively small amount of finance from DFID. We can absolutely develop those kinds of indicators, about the number of groups and the countries in which they are located, as part of the plan that we would like to develop with DFID. Can we then quantify the number of people? Yes. Can we quantify the impact in reducing poverty? I think that begins to get harder. How does one measure it? If we are honest, Fairtrade will provide a critical income for those people; it will not be the sole determinant of their livelihoods. It depends on many factors: the extent to which the government enters into it and whether there is good education or healthcare. Fairtrade can tackle those problems only bit by bit, but what we can certainly come up with is a plan to look at the countries in which we would particularly like to work. I agree with you that we are talking about countries such as Mozambique, Malawi or Sierra Leone—some of the poorest countries where we would really like to be able to work. That is exactly why we believe we need government support to be able to do that. It is much harder to work there and it will take much longer; otherwise, as you say, the danger is that the groups that are
already better organised and have better access will get quicker access to Fairtrade markets. You have seen that in South Africa. That will happen unless we are able to make those kinds of strategic interventions and identify those countries where we believe Fairtrade can make the greatest difference. Which are the products on which most farmers depend and, therefore, how can we focus on them? We can quantify the number of farmers and the possible difference it will make to their livelihoods in terms of income and perhaps take different indicators like health and education. But I stress that a core part of Fairtrade is about the democratic empowerment of farmers. It is for them to decide whether their priority is education, health or clean drinking water. We cannot second-guess sitting here in London that there might be 25,000 more schools built because they might decide that their priority lies somewhere else. But I think we can arrive at a set of outcomes that we can agree upon.

Q13 Mr Bercow: In seeking to increase not just the number and range but the penetration of Fairtrade products in this country, do you see any scope in your own promotional and marketing work for marrying the different objectives of helping the world’s poor on the one hand and enabling people to remain healthy on the other? In other words, can you engender a sense of double virtue in people in the sense that they are doing what is right by the poor and also ensuring that in an ethical sense they have their five portions of fruit and vegetables a day?

Ms Lamb: We cannot pretend that through Fairtrade we can solve all the different issues before us, but I think that is the good news. We are really keen that, for example, schools can have Fairtrade bananas. Again, that is a problem of logistics and scale that we want to track, but it is absolutely right. There is a Fairtrade fruit basket containing lots of lovely things like mangos. I do not know how popular they are in schools, but for the purposes of five portions a day there are mangos, coconuts, bananas, grapes, oranges, lemons, limes and many more products that farmers would like to sell, and all year round. Again, we come back to the question: do we have the capacity to do that? I think you can bring the two together.

Q14 Mr Bercow: You must excuse my extreme ignorance, but is there a Fairtrade smoothie?

Ms Lamb: I will make sure you get one.

Q15 Mr Bercow: For which I will pay.

Ms Lamb: I did bring some Fairtrade chocolate to sweeten the way. Am I allowed to give it out, or not? Does that break parliamentary rules? You can declare it. I am very pleased that there is a Fairtrade smoothie.

Q16 Mr Bercow: It is no bad thing to have a bit of levity in these proceedings, but the underlying point is a serious one. One wants to try to make it as easy as possible for people to do the right thing.

Ms Lamb: Absolutely. There is a double-whammy in the case of the fruit. They can get Fairtrade fruit which is good for them and good for farmers.

Q17 John Battle: Whilst I accept the terms of Fairtrade—that there is a fair price and terms and conditions for farmers are right and we in the north act ethically—I am concerned about the structural relationships between markets north and south. In my own constituency an asbestos company that caused pollution in the 1950s shut down because of laws in Britain but opened up in India, and it is still operating there. People in India remove asbestos with rubber gloves rather than proper protection. I should like to ask you a question about the prospects for markets in the south. We may clean up our markets in the north, but the fastest growing markets will be in China, Brazil and India hopefully. What prospects are there for the Fairtrade market to grow in the south? What are the barriers to it growing in the south? Will we be in a situation where Fairtrade will be dependent on relationships with a handful of northern trans-national retailer corporations and real market change will not happen internationally?

Ms Lamb: I think the good news is that there is enormous interest in establishing Fairtrade markets in the south. Mexico already has a national Fairtrade initiative particularly in coffee. It is Mexican coffee sold to Mexican consumers with the FAIRTRADE Mark. Obviously, it commands widespread support among the public. But there is also a very strong interest in Brazil, South Africa and India. I was in India in November and I attended a meeting of many of the Fairtrade tea, rice and cotton farmers who came together with some Indian businesses and NGOs to look at the success of Fairtrade in the UK market and see how they could take some lessons from that and replicate them in India. I think that the middle-class in India is the size of the total European population. Clearly, there is enormous potential there. They absolutely want to develop Fairtrade for the rising aspirations of the Indian middle-class who clearly have the financial resources to buy Fairtrade. Again, it is also about strengthening their capacity to sell internally and locally and not export everything. They are setting up the initiative now and hope to get started this year or next and sell the products. A similar thing has been happening in South Africa. Again, it has a large middle-class with sufficient capacity and a coming together of producer groups, consumer groups and companies. The obstacles that they face are essentially about building market demand. The problem that we all face in that respect is that we have to do it with very few resources. That is even more difficult in a country like India. Britain is a relatively small country; it has relatively few media outlets and it has easier ways to communicate with people; it also has relatively few retail outlets. In all those respects it is on a different scale in India. Should they start with the seven major cities? What are the best ways they can get the concept started? One of the biggest barriers to that is finance. As I think we mentioned in our submission, for example
in the UK a company launching a new sub-brand, let us say a white version of a chocolate already on the market, would expect to spend about £10 million to £15 million. That is the scale of marketing muscle that we are up against when trying to raise consumer awareness of Fairtrade. We have had nothing like that over the entire course of our time trying to raise awareness of Fairtrade. We have done it primarily through the grass-roots social movement that we talked about earlier: Fairtrade towns and schools. Fourteen per cent of people who recognise the FAIRTRADE Mark say they heard about it through word of mouth. That is a phenomenal achievement, but even that takes some financial investment because you need the capacity to talk to the networks and give them the material and information to explain what Fairtrade is. That is why we believe that for the market to grow in the south investment is required at least to the level that we have had here to take Fairtrade forward.

Q18 John Battle: If DFID gave you the £50 million over five years that you have requested would southern or northern markets be your priority for expanding market share?

Ms Lamb: Our priority for market share would be the southern market. Obviously, there is still enormous potential in northern markets particularly for the new EU Member States. We have lots of interest from the Czech Republic and Estonia. I believe that at this stage it would be more important to invest in new markets like that and in the developing world than, for example, in the UK where the key obstacle to growth is our capacity to work with farmers in the developing world, not the market now. It is a very competitive world out there. One has to go on talking about Fairtrade, raise awareness and encourage more and more people to find out about it, but the biggest obstacle in the UK as a whole is the capacity to work with farmers and bring in new products. Therefore, I believe that the overwhelming priority would be for new markets in the developing world, but that would be only one part of it, if you like the market part of the proposal. The other key parts are about our capacity to work with producers and the ability to bring in products from new areas so that new producers can access Fairtrade.

Q19 Chairman: Given the scale of the products and the market growth, do you have the capacity to do more of your own promotion from within the revenues that you generate?

Ms Lamb: It is always a difficult struggle. A minute ago we talked about schools. A few years ago we made the strategic decision that we would not work with schools because obviously we need special resources geared up to deal with them. We simply could not cope with the interest from the adult population. Having made that decision, every day we get e-mails from schools. They send us poster competitions about Fairtrade that they have designed; they send us little cartoons they have done which they want to put on the web. In the end we thought they were right; we had to be able to work with schools, and that was why we applied to DFID for a grant to enable us to do that. I am pleased that we have now been able to appoint a co-ordinator who can work with schools. Obviously, there is no end to how much more we could do. We honestly cannot keep up, not only with the demand from companies and retailers but from the public. People knock on our door all the time with new and exciting ideas about how they want to take forward Fairtrade. We could always do more.

Q20 Chairman: Why does DFID need to give you a grant? Why does not Marks & Spencer or Sainsbury do it?

Ms Lamb: Absolutely. We could always do more but at some point we have to cut our cloth. At the moment 75% of all our operations are financed out of the licence fee which is what companies pay when they put the FAIRTRADE Mark on the product. We believe that that is about the right balance. That is quite a transformation over recent years; it is not that long ago that the balance was different and we were very dependent on grant funding, but in the end our model is sustainable; it has that mechanism within it because companies pay the licence fee. What the extra bit of grant funding from government, the public, trusts and foundations does is preserve our independence which is absolutely critical to the public’s trust and our ability to work with the most disadvantaged farmers.

Q21 Chairman: Mr Skerrit, you have been extremely patient but I hope you feel that has been a helpful introduction from our point of view. Thank you very much for being here. Obviously, your country is heavily engaged in this, particularly in bananas. Perhaps you would spend a couple of minutes explaining from your point of view as Prime Minister of Dominica why Fairtrade is of interest to you and what your involvement in it is. We have a number of questions, so perhaps you would make a brief introduction.

Mr Skerrit: Thank you for allowing me to be here this morning. To put it in context, one looks back to the WTO ruling against the EU banana regime which afforded us a preferential share in the UK market based on our historical arrangements with the UK. In 1992 the Windward Islands exported on average about 274,000 tonnes of bananas to this country. By 1996 that had fallen to 67,000 tonnes. We saw a decrease in direct employment in the industry; there was a reduction from 15,000 to 3,000 farmers in the same period. There was a deep hopelessness within the agricultural sector in the Windward Islands. People felt that the markets would be erased over the next couple of years, in about 2000, and gradually farmers left the sector and banana production in particular. One understands the tremendous social dislocation resulting from the action of the WTO. Poverty and unemployment levels, especially among young people, increased and crime and violence increased in all the Windward Islands. With the advent of Fairtrade hope was given back to farmers and many of those who had left the industry returned.
representative of the people—here I speak for the entire Windward Islands—I appreciate and understand the importance of the banana sector to our economic survival. What Fairtrade has done for us is ensure that the social stability of our country is maintained; that poor people, particularly in rural communities, can enjoy a better standard of living as a result of a committed price in the UK market, and that once farmers produce bananas under the Fairtrade label they will be sold in the UK market and consumers will purchase them. There has been a multiplier effect on our economies as a result of Fairtrade. We have to understand the tremendously serious recession that occurred after the WTO ruling in every single island in the Windward Island group. That recession reached unmanageable levels. A number of us have engaged our creditors in debt restructuring exercises. Some of us have had IMF structural adjustment programmes because of the remarkable decrease in the profitability of industry. In the case of Dominica, it went from an average of US$30 million to about US$8 million a year. One can understand the serious fiscal gap that has been created as a result of the WTO ruling. We have been able to take decisions to close that gap. When one looks at the banana exports sold under the Fairtrade label and the economic growth of the country it is certainly assisting. Once there is a decline in banana production and export there will be a decline in the growth of the economy. We have seen a gradual increase in growth as a result of the increase in the export of bananas under the Fairtrade label. As Prime Minister I am not an adviser or employee of the Fairtrade Foundation, but I understand its importance to our economy and the people throughout the Windward Islands. That is why I have decided to come here and speak on behalf of farmers and also to thank the British people for standing by the Fairtrade label as a matter of principle. That is why we seek from the Caribbean standpoint to have principles enshrined in the Economic Partnership Agreement with the European Union. Mr Battle made a point about factories leaving the north and going south. In this Agreement there are no enshrined principles; it is purely about trade. What we say to the European Union is that certain principles must be enshrined and must be at the core of the Agreement, and let development rather than trade and economics be the focus. Without that principle, yes, we will have agreements but there will be no positive results emerging from them.

Q23 Mr Singh: When we were in Ethiopia we found that a minority of coffee farmers and growers were organised, and yet in the Windward Islands last year 72% of your banana exports were Fairtrade. That is quite a high figure. How have you achieved that? Will it rise, or have you reached the peak in terms of Fairtrade?

Mr Skerrit: I can assure you that over the next couple of years you will see 100% of Fairtrade bananas coming from the Windward Islands. The reason for it is that the governments, local groups and farmers are involved. In some countries people may be fearful of becoming organised, perhaps for political reasons, but we believe that the only way to get out of poverty is by people organising themselves and playing their part in nation-building. If we keep giving handouts to our people in no way will they get out of poverty. Fairtrade gives the opportunity to manage their own affairs in their respective villages and communities, and that is why you see a high percentage of farmers who are organised under the Fairtrade label. That number will certainly increase by 200% over the next couple of years. Once there is a guaranteed price for bananas in the UK market you will see farmers
becoming involved. Importantly, this is not only about bananas. Dominica has also started to export coconuts and grapefruits. Some of you may remember that in the 1970s we exported some of the best grapefruits to the UK. We are looking at the export of grapefruits, oranges and pineapples and a number of other agricultural products and fruits for the purposes of Fairtrade. Another area where we can do well with Fairtrade is to take advantage of our growing tourism industry. How do we sell more Fairtrade products to the cruise ships that arrive in Dominica and the Windward Islands? At present we sell bananas, pineapples and jelly nuts to cruise ships that call at Dominica, but we should like to sell them under the Fairtrade label to tourists sensitive to the fact that it is a place which does not promote exploitation, child labour, bad farm practices or the destruction of the environment. The Fairtrade label speaks to the promotion of best farm practices, the protection of the environment and ensures that if a man works for a day he is paid for that day and not half a day, and we have to sensitise tourism to that fact.

Q24 Mr Singh: Has any attempt been made to promote resistance to Fairtrade by private companies or profitiers?  
Mr Skerrit: No. I am absolutely certain that there are several of our merchants in Dominica and the rest of the Windward Islands who would love to sell Fairtrade products.

Q25 Ann McKechin: Mr Skerrit, can you clarify for the Committee the difference in price between a Fairtrade product and a non-Fairtrade product that the farmer obtains? You have given some indication that communities make their own decisions about how they use the social premium or benefit from Fairtrade products. Can you give us some examples of how it is being used by local communities? In what sectors are they investing the money? Is it going into health or education? In addition, certainly one of the problems that the Windward Islands have always suffered from economically is over-reliance on one particular crop. To what extent do you think the social premium can be used to try to assist diversification into other forms of production?  
Mr Skerrit: As to whether or not farmers sell under the Fairtrade label, the good thing about it is that it guarantees a minimum price for the product, whereas under other labels it fluctuates. Difficulty arises when farmers cannot get a minimum price for their product.

Q26 Ann McKechin: Can you give some indication of what the range would be between the set price under Fairtrade and prices obtained elsewhere?  
Mr Skerrit: I have been told by my chief executive that there is about a 25% difference. As to those areas where farmers use the premium, we are talking about the construction of farm access roads and the purchase of school buses. In some cases students walk over a mile to school. This is no longer the case in many communities in Dominica. One is talking of scholarships and agricultural credit extended to farmers. Agricultural credit assists farmers in their diversification efforts. Most small farmers are engaged not only in banana production; they are involved in all sorts of root crops and citrus. That is why they are now looking at diversifying under the Fairtrade label. Our marketing arm in the UK, WIBDECO, is now in discussion with the Fairtrade Foundation to assist us in setting the standards and requirements for other areas. A consultancy study has been agreed to look at the supply of products for the Windward Islands to sell in the UK market. Certainly, over-reliance on one crop is reducing. Once we have a guaranteed market and a fair price our people will work and produce, and that is what Fairtrade seeks to do with us in the Windward Islands and why governments are so supportive of the effort. We in the Windward Islands are not interested in handouts; we do not want to come to the UK and ask the British Government for £5 million. All we say is that if you assist Fairtrade through this grant it can assist us in developing the markets and products and we can be independent. We can raise money, employ our people, pay our debts, pay salaries and meet our commitments. That is what we say to our friends here. There is a commitment to work. A former Prime Minister, Dame Eugenia Charles—some of you may know her—came here to speak to a most distinguished former Prime Minister of Great Britain, Lady Thatcher. She said to her that if we could not have some kind of agreement it would be either bananas or drugs. That was the debate. Drugs would come from South America, transit through the Windward Islands and get onto BA and Virgin Atlantic flights every day to this wonderful country. What we need to do is find constructive and sustainable ways to stem that, and the only way to do it is to keep people gainfully employed. I believe that this grant would be used for the benefit of all concerned. We in the Windward Islands seek to enshrine and entrench in the Economic Partnership Agreements the principles for which Fairtrade Foundation stands. We believe that without those principles or agreements we cannot do it. We have to set certain standards. We do not want certain things to be dumped on us that are no longer possible in the European Union because of the existing laws in the EU. It is absolutely critical that the necessary support for the Fairtrade Foundation be continued, because it will make a remarkable difference. I believe that it will be a model for us to look at when entering into similar trade arrangements. We have repeated this often enough.

Q27 Joan Ruddock: You have given us a tremendously optimistic and positive presentation of how important Fairtrade has been in the recovery of your banana economy. I think that that makes all of us who may have bought your Fairtrade bananas feel that we are part of that. Thank you for that; it makes it all so worthwhile. But I imagine that there were difficulties along the way. You said that some small farmers were initially quite reluctant. Can you

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3 Windward Islands Banana Development and Exporting Company (WIBDECO).
give us a flavour of those difficulties and how they were overcome, not just by your being on the streets and in the farms yourself?

**Mr Skerrit:** Farmers tend to be experts in their own right. They have been doing the same work for 40 or 50 years and somebody comes along and says that the world and standards have changed and they have to change their way of doing things on the farm. They must change the packaging of the fruit or install washing facilities or take a record of what is used on the farms and so on. There is always resistance to change anywhere in the world at any level. It is not that they did not understand the importance of it. They have been doing the same thing for 40 years and then somebody, who has not reached the age of 40, comes along and tells them what to do. There was some resistance to it, but as time went by farmers started to become advocates. Farmers went on the radio; they went to the information service and attended public village meetings and explained to colleagues that they had to change and make a 360-degree turn in order to survive. Once they started to see the tangible benefits of it at the social level and also from their own economic standpoint they became converts and disciples of the word. That was how we were able to get farmers to move to Fairtrade. It has been a remarkable experience, and they continue to participate in the whole process. Farmers have really had to change. Farmers have not done anything different for 30 or 40 years. I have a farmer here with me who has been in farming for 45 years. You will understand his reluctance to listen to somebody who tells him he has to change.

**Q28 Chairman:** He is smiling.

**Mr Skerrit:** He knows what personal benefit has come to him as a result of Fairtrade. It has been a remarkable experience. The problem was to get people to change. “Problem” is a complex word and involves a complex demand. People become fearful when they hear of change, but change is good. People would like to see the tangible benefits of change in order to support it, and I believe that they have seen it.

**Q29 Joan Ruddock:** Is the reason why farmers have not yet moved into such a system that they may be too small or too poor? Is anyone too small or poor to come into the system, or is it just a reluctance to change?

**Mr Skerrit:** It is reluctance. I speak for the entire Windward Islands, but in the case of Dominica we have 100% Fairtrade certification. There are a couple of islands in the Windward Islands that we are still working on.

**Q30 Chairman:** There is 72% coverage of the Windward Islands?

**Mr Skerrit:** Yes, but I am confident that over the next couple of years we will see the rest coming in and it will be 100% across the board.

**Q31 Joan Ruddock:** I think you said that you had earned US$23 million from fair trade?

**Mr Skerrit:** It is US$2.3 million. I would love to have US$23 million.

**Q32 Joan Ruddock:** To which other countries do you export? I know from my colleague Glenys Kinnock that a lot of work is being done by the EU as a whole. How many other countries are participating? I presume that it is not just export to the UK.

**Mr Skerrit:** We export only to the UK. We tried a couple of markets in Switzerland but it was not sustainable. The UK has been our strongest supporter and ally in our efforts in the banana industry, so we have concentrated on this market. The UK housewife as a consumer has a long history of buying Windward Island bananas. This is where we are and we hope to stay there, but certainly if the opportunity presents itself in other countries we will have access to them. I believe that we could gain access to France, but it has two dependent territories, Guadeloupe and Martinique, which produce bananas and supply that market.

**Q33 Joan Ruddock:** You said that you did not want handouts but you very much needed the support of the Fairtrade Foundation. Do you also require direct donor assistance and, if so, what is the nature of it? What do you seek for further development in the future?

**Mr Skerrit:** One is in the area of product development; another is access to markets and, linked to that, transportation; and another is the development of infrastructure, for example farm access roads. As you know, our countries are mountainous and hilly. The terrain can be difficult, unlike other countries in Latin America which are flat. Because of that we need easier access to farms. Those are the areas where I believe we need some technical assistance to make us more competitive and sustainable.

**Q34 Joan Ruddock:** Whilst you were giving your answer I was passed a note to remind me of the deal that you have made with China.

**Mr Skerrit:** We have an arrangement with China which has agreed to do several things for us. It has agreed to build a hospital and a secondary and primary school in Dominica and provide assistance with what is called West Coast Road from the capital to our second town. China has also offered us scholarships. We now have 25 students studying in China, and we expect to send an additional 15 in September. But the European Union is our biggest donor.

**Q35 Richard Burden:** Could you elaborate on the kind of ways that you think donors may be able to help in the area of product development? Earlier you emphasised the importance of local farmers accepting change and improving the quality of product; and that was also mentioned by Ms Lamb when she referred to the importance of good organisation to allow those things to happen. Perhaps you can assume that you are addressing a government and not the Select Committee and saying this is what it could do to help not only your
farmers but perhaps those in other countries to improve and develop their products in such a way as to maximise their potential.

Mr Skerrit: In terms of product development, we still lack the necessary depth of human resources and expertise. I believe that if we receive technical assistance to train our local people and in turn provide ourselves with that kind of technical assistance in terms of quality and practices in the farms and packaging of the product in keeping with the requirements and standards set by Fairtrade and the UK market it will certainly help us. We have the grapefruits, oranges and coconuts, but we have farmers who may not be doing it in a proper way. We do not want a situation where we send fruit to the UK market that is not in keeping with the required standards. We want to ensure that we correct our errors at the initial stage. Whatever the country, normally the people engaged in farming are small producers who have not really moved on to take advantage of educational opportunities; they are middle-aged people and senior citizens, so that capacity is not there. Certainly, to have in place proper facilities for the packaging and shipment of products would be helpful to us.

Q36 Richard Burden: Perhaps you would elaborate a little further on the form of technical assistance that you have in mind.

Mr Skerrit: I agree that “technical assistance” is a broad term. One area is to assist us in attracting human resources to help us; another is possible assistance in the construction of proper facilities, such as a central packaging facility to which farmers bring their product from the farm where the quality is inspected and so on before it is placed on the ships for shipment to the UK. Therefore, I have in mind assistance in the form of human resources and the physical construction of facilities where farmers can transport their produce where it can be inspected and packaged in keeping with the required standards. Those two areas of assistance when looking at diversification efforts would be very helpful. We already have the raw material and it is a matter of having the proper packaging and ensuring it meets the required standards to export it.

Q37 Chairman: To round it off, obviously you have had a huge recession as a result of the WTO ruling and withdrawal of EU support and you have not got back to where you were. You have given us a very enthusiastic, positive and upbeat view of what Fairtrade is doing for Dominica and the Windward Islands. Do you believe that this offers you a more secure future than the preferential deal that you had before, and perhaps one over which you have more control than was the case?

Mr Skerrit: To be quite frank, we would love to have a preferential market, but we are practical people. We believe it makes no sense to fight the case for preferential treatment; it will not happen and we have moved beyond that. What we say in respect of the Economic Partnership Agreement that we have signed and is to be renewed at the end of this year is that this is something that the EU must consider and place in those agreements. That was why I made the point about putting development at the heart of the EPA. We say that the European Union has concentrated too much on trade. We feel that it should have been a development round, but nobody speaks of development. If we speak about trade but not about inequalities, infrastructure and human resources we will not achieve what we want to achieve through the EPA. That is why we say that there must be certain principles. Every constitution has a certain preamble. If within the EPA, which in a sense ought to be a constitution, we do not have development at its centre or any principles it will not achieve what we want. It will achieve greater poverty, recession, crime and violence and more drugs entering European markets. I speak from a very practical standpoint. There does not appear to be flexibility from the standpoint of the European Union and that was why in Hong Kong the discussions fell apart. We went to Hong Kong to discuss development. When we got there they wanted to talk only about trade. We said that we could not discuss it if development was taken off the agenda. When we left our capitals we came on the understanding that we would be discussing development. Let us bring development back to the fore of the discussion and let it be the centre of the EPA. I emphasise that there must be principles enshrined in the EPA. If there are no principles how will we measure our achievements?

Q38 Chairman: I can reassure you that this Committee has spoken out very forcefully on the need for the EU to bring development back into the trade round. We have produced a report which we will be updating. A few weeks ago we met some of your colleagues from the ACP4 group, ambassadors to the EU, and had a very lively, forthright exchange with them. We also engaged with Commissioner Mandelson. We shall be publishing an updated report, so I hope you will find that at least this Committee is fighting your corner.

Mr Skerrit: We have quite a number of friends in the UK Parliament.

Q39 Chairman: You have made a few more today. We thank both witnesses very much for coming to give evidence.

Mr Skerrit: Chairman, I made a statement at the launch of Fairtrade Fortnight and, for what it is worth, I should like to provide the Committee with a copy of it.

Chairman: Thank you.
Witnesses: Ms Sandra Taylor, Senior Vice President, Corporate Social Responsibility, Starbucks Coffee Company, Mr Cliff Burrows, Senior Vice President and President, Europe, Middle East and Africa, Starbucks Coffee Company, and Mr Mike Barry, Head of Corporate Social Responsibility, Marks & Spencer, gave evidence.

Q40 Chairman: I thank you for coming along. Perhaps you would briefly introduce yourselves for the benefit of everybody here. We will then follow it up. We have heard the background of Fairtrade from the movement and the participants' point of view. I guess that it is now the UK end in which we are engaged.

Mr Burrows: Chairman and Members of the Select Committee, my name is Cliff Burrows. I have been a director of Starbucks UK for some six years. My current responsibility including the UK stretches across Europe, the Middle East and into Africa.

Ms Taylor: I am Sandra Taylor, Starbucks’s senior vice president for corporate social responsibility based in Seattle, Washington. I appreciate the opportunity to be here today.

Mr Barry: My name is Mike Barry, head of corporate responsibility at Marks & Spencer.

Q41 Chairman: Thank you for coming. I start with the specifics, which will not come as a surprise given that the Committee has recently visited Ethiopia and an agreement with its government has just been concluded. First, could we explore that? One of the matters which I confess I have not quite got my head round is the trade-marking concept compared with other things. Does Starbucks accept that Ethiopian coffee has distinct and attractive characteristics? After all, you do market brand names relating to Ethiopia. Does Starbucks accept that fundamentally there is something about Ethiopian coffee that is distinctive and, presumably, adds value to its business?

Ms Taylor: We do believe that Ethiopian coffees are distinct. Our customers love and demand Ethiopian coffee, and we believe that Ethiopia should have the opportunity to brand its coffee names. We have expressed our public opposition to trade-marking because we are persuaded by 58 years of evidence of geographic certification of agricultural names. We have suggested that to the Ethiopian Government as an alternative. Recently, we reached an agreement with that government to pursue our shared vision of the quality of the product.

Q42 Richard Burden: You objected to the trade-marking of Ethiopian products. Do you still object to the trade-marking of those products?

Ms Taylor: We recently reached agreement with the Ethiopian Government that we would not oppose its trade-marking. We greatly regret the misunderstanding regarding our position. We look forward to research that is currently being conducted by economists from the World Bank and at a university in Costa Rica regarding the economic benefits of certification. We believe that geographic certification provides certainty of origin, direct value to the farmer and assurance to the consumer as to the quality of the product.

Q43 Richard Burden: Is it still your advice to Ethiopia not to go for trade-marking but you respect its right to do so if it so wishes?

Ms Taylor: Absolutely.

Q44 Richard Burden: As I understand it, at the time that you appeared to be against trade-marking, perhaps through a misunderstanding, the opposition to trade-marking in the United States came directly from the National Coffee Association. That body opposed trade-marking, did it not?

Ms Taylor: That is correct. The National Coffee Association took a position in opposition to trade-marking. We are one of 183 members of that association and have one vote. The US Patent and Trade Mark Office has made a decision regarding trade-marks for Ethiopia.

Q45 Richard Burden: You are a member of the National Coffee Association. At the time it took the decision to oppose trade-marking in the United States did you support it?

Ms Taylor: As any member of a trade association, we see this issue as an industry matter, not one confined to a single company. Of course, we would work through a trade association in that regard.

Q46 Richard Burden: But even if you have only one vote you are a pretty significant member of that association. As I understand it, it still opposes trade-marking. Therefore, as a member of that association do you support that continued opposition to trade-marking?

Ms Taylor: No, we do not. As I indicated, Starbucks has one vote in the organisation. Despite the fact that we have many stores and a very well-known brand we buy only 2% of the world’s coffee. There are members of the National Coffee Association who buy much larger volumes of coffee than we do.

Q47 Richard Burden: But you still have a voice within it. Within the NCA are you making representations that it should change its position?

Ms Taylor: We have not sought to change its position. We have indicated to the Ethiopian Government that we will not oppose its efforts to trade-mark—we respect its right to choose that as an option—nor will we block or try to inhibit the Ethiopian Government from forming a group of licensed distributors.

Chairman: I do not want this to go on for too long. It is a specific point and, having been to Ethiopia and had discussions on this matter, it is helpful to have your point of view.

Q48 Richard Burden: To make a last point on the NCA, you say in your written evidence: “Starbucks respects the right and choice of the Government of Ethiopia to trade-mark its coffee brands and to create a network of licensed distributors.”

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different views about whether certification can be effective. Do you think that the NCA should also respect the right and choice of the Government of Ethiopia to trade-mark its coffee brand and create a network of licensed distributors?

Ms Taylor: I do.

Q49 Chairman: Starbucks does?

Ms Taylor: That is correct.

Q50 Mr Bercow: That may have resolved the dilemma. Listening to Ms Taylor’s answers to my colleague, I was slightly anxious that, although she was immensely courteous and forthcoming, no clear and very clear position appeared to emerge. You said that you did not support the NCA in its opposition to trade-marking, to which the obvious follow-up question would be: if you do not support the NCA in that mission do you oppose it?

Ms Taylor: I believe that we did express opposition to trade-marking. As we look at the positions that governments around the world have taken regarding trade-marking of geographic names there are different views. Starbucks believes that this is really a matter for other governments and the WTO. The Australian Government has taken one position; the EU has taken a different one, as have Canada and the US Patent and Trade Mark Office. We believe that this is a matter for trade-related intellectual property rights. For our part, we are very committed to Ethiopian farmers and look for ways to enhance their livelihoods and expand our purchases of coffee from that country.

Q51 Mr Bercow: I appreciate that. I was slightly concerned because on the one hand I feel that Starbucks is and would consider itself to be a very significant market operator and global player but, on the other hand, it is sometimes characteristic of large organisations faced with a political difficulty, if I may say so politely, to adopt a tone of self-effacement that is not altogether characteristic of its usual public utterances or behaviour. You said that Starbucks was one member of the Association, that it had its views but was just “little us”, but, as my colleague Mr Burden pointed out, you may have one vote but you are very significant players. It is important to be clear about that. If you want to exert influence you can; if you feel that politically and diplomatically in a sense you want to try to get out of what is a rather embarrassing situation that is a legitimate stance to take, but I am not sure that self-effacement and Starbucks go together, if I may say so. You talked about how you looked forward to forthcoming serious weighty evidence and so on, and yet you admitted to the Committee that as an organisation you had recently changed your position on trade-marking. I refer to the announcement on 20 February.6 Ordinarily, one observes the evidence and then considers whether or not to change one’s position. You appear to have changed your position in advance of publication of the evidence to which you say you look forward. Therefore, I believe we are entitled to ask: why did you change your position?

Ms Taylor: There is 58 years’ evidence regarding geographic certification. I can refer to Colombian coffee, Antigua Guatemala coffee, Jamaica Blue Mountain coffee, Kona coffee, Florida oranges and Parmesan cheese. There are many examples of geographic certification of agricultural products and names. We were persuaded by those examples that had created both quality and value for those producers, as well as certainly for consumers as to the origin and quality of those products. That is the evidence to which I refer. We very much value our relationship with Ethiopian farmers. We regret the misunderstanding that has arisen between Starbucks and the Ethiopian Government, and we respect the right of that government to choose the direction that it feels is right for it. Respectfully, we have expressed our view that geographic certification would be better for farmers, but that is based on the experience we have had with other coffees in other countries. But we respect the right of the Ethiopian Government to choose that direction. It is not our decision whether or not a trade-mark is granted; that is for governments around the world.

Q52 Joan Ruddock: As a matter of history, one wonders whether it was Starbucks that raised with the NCA its own objection to trade-marking of Ethiopian coffee or whether the Association had taken a position and Starbucks fell in line with it.

Ms Taylor: We expressed our position to NCA. The NCA’s position was based on other members’ perspectives and points of view.

Q53 Joan Ruddock: But Starbucks raised it with the association first?

Ms Taylor: I believe that we were asked our opinion by the NCA. That is correct.

Q54 Chairman: We have an article written by Professor Douglas Holt of the Said Business School of the University of Oxford, of which you are probably aware.7 The tenor of his article is that this did deep damage to the image of Starbucks as a fair trading company. Is that the case, and is that the reason you changed your position? The whole row over the Ethiopian trade-mark damaged your position which Starbucks has articulated over a long period of time, namely that Starbucks is proud of its relationship with Ethiopian farmers. We regret the misunderstanding that has arisen between Starbucks and the Ethiopian Government, and we respect the right of that government to choose the direction that it feels is right for it. Respectfully, we have expressed our view that geographic certification would be better for farmers, but that is based on the experience we have had with other coffees in other countries. But we respect the right of the Ethiopian Government to choose that direction. It is not our decision whether or not a trade-mark is granted; that is for governments around the world.

Ms Taylor: I do.

Q50 Mr Bercow: That may have resolved the dilemma. Listening to Ms Taylor’s answers to my colleague, I was slightly anxious that, although she was immensely courteous and forthcoming, no clear and very clear position appeared to emerge. You said that you did not support the NCA in its opposition to trade-marking, to which the obvious follow-up question would be: if you do not support the NCA in that mission do you oppose it?

Ms Taylor: I believe that we did express opposition to trade-marking. As we look at the positions that governments around the world have taken regarding trade-marking of geographic names there are different views. Starbucks believes that this is really a matter for other governments and the WTO. The Australian Government has taken one position; the EU has taken a different one, as have Canada and the US Patent and Trade Mark Office. We believe that this is a matter for trade-related intellectual property rights. For our part, we are very committed to Ethiopian farmers and look for ways to enhance their livelihoods and expand our purchases of coffee from that country.

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Ms Taylor: I do.

http://www.starbucks.com/aboutus/pressdesc.asp?id=750

7 Not printed.
Ms Taylor: Starbucks has had at its core from the start, and for the past 35 years, a social consciousness. It has always sought collaborative relationships with farmers and to pay premium prices. We are the largest purchaser of Fairtrade coffee in North America. Last year that amounted to 18 million lbs. We believe in fair trade. We purchase a lot of certified and organic coffee. Three years ago we launched our own ethical purchasing guidelines covering coffee and farmer equity practices. We do this because we want a partnership with farmers. As we grow we want farmers to grow. We have invested in agronomy centres in Costa Rica. We have recently announced that we shall be opening a farmer support centre in East Africa primarily to help farmers throughout that region improve their quality for Starbucks purchasing. We care about what farmers think about our position and the point of view of African governments about our business. We have always wanted to have this kind of relationship with farmers. Our primary concern is not to have Ethiopian farmers or farmers in East Africa question our commitment to continued purchases of coffee. I can say that that is the reason why we articulated a different position and agreed not to block any efforts by the Ethiopian Government.

Chairman: We shall also explore your fair trade credentials and how your company and Marks & Spencer can promote it. We will now move on to that.

Q55 John Battle: To broaden the question to include the representatives of both Starbucks and Marks & Spencer, Ms Taylor used the phrase “social consciousness” which is one that we ought to explore a good deal further. It may also include basic economic justice. In that spirit perhaps I need to be convinced that fair trade is not an add-on, an upmarket niche development or corporate standard in the northern world, but is a consumer choice and a means of transforming mainstream business to ensure that markets are fairer, that, as the Prime Minister of Dominica suggested, farmers adopt best practices, that fair prices, terms and conditions are in operation and there is protection of the environment. We want that cluster of social and economic responsibilities to be built in all the way from the farm to the table. Is that the purpose and aim of your interest as retailers in this whole business, or are retailers and corporations simply responding to some new consumer demands when it comes to supporting ethical and fair trade production? Do you really have at heart the transformation of social and economic consciousness?

Mr Barry: That is an excellent question. Perhaps I may take the Committee on a two-minute journey to answer that question. To take the Marks & Spencer business model, we have 2,000 factories supplying us with products and 10,000 producers whom we know and with whom we work directly. But there are certain parts of our business model that use commodities such as cocoa, coffee, tea, sugar and cotton in particular where for historical reasons we have never had the level of traceability to put standards in place that we want to do in other parts of our business. For us Fairtrade brings three very clear benefits. First, it allows us to burrow deep into commodity-driven supply chains into areas where we have, to be fair, little development experience. It gives us a model to work directly with tens of thousands of primary producers in some of the poorest parts of the world. Just in terms of how we manage our business and the kind of relationship that we have with our supply chain, even before Fairtrade becomes a consumer-tracing benefit, it gives us huge benefits internally. The second benefit that we have talked about all morning relates to the consumer. Today, about 80% of British consumers are at some form of tipping point in terms of interest in social and environmental issues. This morning a very good question was raised about what consumers are asking for. I believe Ms Lamb said that today it is more than just price. We agree. Customers look for value for money which is a function of price, quality, trust, sustainability or whatever word we want to use to define it. Therefore, the FAIRTRADE Mark gives consumers certainty. In a market-place where there are lots of different brands offered to the consumer and retailers with their own standards there is one standard that everybody understands. The other benefit in that consumer space is that it becomes self-supporting. If you look at the advertisements during Fairtrade Fortnight, Sainsbury has said some very important words about Fairtrade, as has Marks & Spencer. We took a four-page ad in British newspapers yesterday to talk about our commitment. It carries the Fairtrade logo. It supports the Marks & Spencer business model and everybody else’s, so Fairtrade has some huge benefits in the consumer space. The third big benefit of Fairtrade for organisations such as Marks & Spencer, which sells 35,000 different product lines, is that it makes things much more efficient for us. We as a retailer do not want to set up our own fair trade system for every single commodity that we sell. It would be mad. We would need teams of 20, 30 or 40 people doing the supply chain management, the outreach to producers, the setting of fair prices and auditing it. For us Fairtrade has huge benefits. Clearly, it is possible to do Fairtrade only when one has core standards in place across the whole of one’s business.

Q56 John Battle: Marks & Spencer started off in a wheelbarrow in Leeds. There is still an argument about the quality and standards in Leeds market in terms of the conditions for the traders there now. The roof leaks and all the rest of it. In addition to sorting out prices and being responsive to consumers, do you seriously suggest that your bottom line is driven by labour standards and environmental protection?

Mr Barry: To be absolutely clear, in January our chief executive Stuart Rose stood up and committed the business to a £200 million five-year plan with 100 points on it to address these very issues. We have a strong track record of delivery in the past. We are clear that for the future that is not enough and we
shall do more. Rose has clearly tied Marks & Spencer’s future business prospects to the delivery of great quality products at great prices in great stores but also with sustainability and trust built into it.

**Ms Taylor:** At Starbucks we have had relationships with farmers for the 35 years of our existence. We have always wanted to deal direct with farmers and build long-term relationships with them. Many of these relationships preceded the establishment of the fair trade movement or system. Many of these suppliers either would not or could not qualify for Fairtrade because they were large farms or estates. But we believe that fair trade is a really important way to support the farmer. Primarily, we buy high quality, specialty Arabica coffee produced above 3,500 ft. We need a continuing supply of that high quality specialty coffee as we grow. Therefore, it is in our business interest for farmers to continue in business. We have a range of programmes including fair trade that helps us supply that sustainable production. We are also very much committed to the environment. Our coffee and farmer equity practices were the result of a programme we started with Conservation International. We were concerned about biodiversity hot spots. We began with a project in Chiapas, Mexico, with Conservation International and were very successful in helping farmers to provide shade, to reduce pesticide use and at the same time realise a higher value for their production on the international market. We considered trying to do that in every biodiversity hot spot of the world and felt that a more viable alternative was to develop our own coffee and farmer equity practices with a focus on economic transparency, social equity and environmental sustainability. We believe that that combination of programmes helps farmers to stay in business, makes a real contribution to communities and provides the high quality coffee that our customers expect.

**Q57 Chairman:** How does it compare with the principles applied by the Fairtrade Foundation? Do you compare notes or are you on a separate track?

**Mr Burrows:** I believe that there are lots of similarities with the Fairtrade Foundation. We would certainly applaud what has been done particularly in the UK to raise awareness of Fairtrade with a capital “F” or fair trade with lower case “f” and “t”. For all of the coffee that we purchase we look to many of the same elements of the Fairtrade Foundation. Today, fair trade in the world accounts for about 2% of the coffee, and we purchase about 14% of that. We have seen that that grow year on year. As my colleague has said, we apply many of the same principles to existing farmers with whom we have had relationships for 35 years across the globe in some 60 countries. There has been investment to help them grow better quality coffee, build long-term contracts and give social awards back to those communities. Indeed, work has been done with those communities to invest either in washing stations, which improve the price that the product can attract, or social and educational facilities similar to those referred to by Ms Lamb earlier today. For us it is not a case of either/or; they are very much complementary programmes.

**Q58 Mr Singh:** Mr Barry, Marks & Spencer has just decided to convert its whole tea and coffee business to Fairtrade and only those products will be sold in your in-house cafés. A number of questions arise from that. Why have you done it? Does it imply that when you were buying non-Fairtrade products you were dealing unfairly with those producers? Has there been an economic impact on Marks & Spencer as a result of doing it and, if so, how is that being absorbed?

**Mr Barry:** As a point of clarification, we use coffee and tea in three ways. In our 500 food stores we sell about 38 different lines of coffee and tea. We serve it in our 200-odd cafés—our Café Revive operation—and serve it to 65,000 employees in our offices and stores. Every single cup is Fairtrade coffee or tea today. That is a conversation which has taken place over the past 18 months. I think that we have provided 430 million cups of coffee and tea over the past 12 to 18 months. Why did we do it? We thought long and hard about whether we wanted to do Fairtrade two or three years ago. Once we decided that it was the right thing to do, for the reasons I have outlined, we had to work out where to start it. We decided to start with coffee and tea for a few reasons. First, when we looked at the supply chain we found that the suppliers already met many of the attributes of Fairtrade. There were bits and pieces that did not, but it was a supply chain within touching distance of being Fairtrade, so it was a good place to start. Second, we wanted to look at ourselves in the market-place. Our sales of coffee and tea were declining. We did not have the significant point of difference that we wanted, so we decided that Fairtrade, which was very popular with consumers, might be something that we wanted to do. We launched this piece of work and it took about two years, and it started from a supply chain that was in a fairly good situation. One of our big concerns was quality. We literally put all our eggs in the Fairtrade basket. We do not sell anybody else’s coffee or tea. If we had got it wrong we would have got it very badly wrong. We had to make absolutely sure that quality did not suffer. It did not. As a consequence of that, long term we have seen an uplift in sales of 6%, which was exactly what we were looking for as a business. For us it has been a very good learning experience; it has given us the confidence to turn to much more challenging areas, such as cotton production.

**Q59 Mr Singh:** What has been the economic impact on Marks & Spencer?

**Mr Barry:** I think that in the current very competitive market-place we are very pleased with a 6% uplift in sales.

**Q60 Chairman:** What is the general market trend in relation to those products? Are they static, declining or rising?
**Mr Barry:** In the market-place overall it is level or declining. It is a very difficult market-place, so our commercial teams were very pleased with a 6% uplift in sales.

**Q61 Mr Singh:** Did you just jettison the other producers with whom you dealt?  
**Mr Barry:** Very few of the producers with whom we have dealt historically have left our supply chain because of this shift. One is talking of a few large coffee plantations, but they are negligible in number. The vast majority of the producers we worked with have stayed with us.

**Q62 Ann McKechin:** I should like to clarify with the witnesses from Starbucks whether the coffee and farmer equity practice scheme applies only to the company, or is it a type of scheme used elsewhere in America? Obviously, it is based on an American scheme.  
**Ms Taylor:** So far these are purchasing guidelines that only Starbucks has used. It is not proprietary. We have talked about it to others in the industry. We believe that it is an ethical purchasing programme that can easily apply to other coffee companies. We launched it about three years ago, and last year we met our goal of increasing our purchases under the programme by 100%. Therefore, it is about 155 million lbs primarily in Latin America and some in Asia. We have just started to introduce this in East Africa.

**Q63 Ann McKechin:** Obviously, the FAIRTRADE Mark is well known here in the United Kingdom and there are similar schemes in other parts of Europe. Is there something of a similar nature already in existence in North America, or is your scheme unique among coffee retailers?  
**Ms Taylor:** Certainly, fair trade is well established in the United States and obviously we are a partner with TransFair USA. We have fair trade licences in 22 countries. There are a number of other coffee schemes, for example Rainforest Alliance, but CAFÉ practices is one that we have talked a lot about to other companies.

**Q64 Ann McKechin:** Earlier today we took evidence from the Fairtrade Foundation. We were told that when it gave the FAIRTRADE Mark it went really to small-scale operatives and not large-scale plantations. Does your scheme apply to large plantations?  
**Ms Taylor:** It applies to all producers and it is a verified scheme. Farmers have to meet fairly stringent criteria. There is an independent certification process. Verifiers verify farms, but it applies to all sizes.

**Q65 Ann McKechin:** Would it include, for example, ILO\(^8\) recognised standards on employee organisation?  

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\(^8\) International Labour Organisation (ILO).

**Ms Taylor:** The social equity criteria—there is a checklist—include ILO standards for child labour and worker rights and provisions.

**Q66 Ann McKechin:** In light of the success of Fairtrade here and in Europe, can you say why you decided to go along with your own scheme at the end of the day, three years ago, as opposed perhaps to a scheme which had wider recognition among producers and retailers?  
**Mr Burrows:** Again, this is not either/or for us; it is complementary. Today, fair trade accounts for about 2% of world coffee production. We are responsible for purchasing about 2% of global coffee. Those two numbers are coincidentally the same. We are a global business where fair trade recognition and the brand are different in different countries. We referred to TransFair USA; it is Max Havelaar in France, Belgium and some other countries in Europe. It is the Fairtrade Labelling Organisation which is the association. Equally, we had a big commitment to the sustainability of farmers’ crop and that was why for us CAFÉ practices support our future growth, our commitment to quality and the payment of a premium price. We paid $1.42 on average per pound last year which is a premium on the prevailing commodity price.

**Q67 Joan Ruddock:** What percentage of the coffee that you purchase for the US market is done through TransFair USA as opposed to your own scheme?  
**Mr Burrows:** Six per cent of our total purchases are made through TransFair.

**Q68 Joan Ruddock:** For the US market?  
**Mr Burrows:** In total, it is 14% of fair trade coffee and the vast majority is through TransFair.

**Q69 Joan Ruddock:** So, it is 6% in the US?  
**Mr Burrows:** Yes.

**Q70 Joan Ruddock:** What percentage of the coffee that you buy for use in the UK market is Fairtrade?  
**Mr Burrows:** We buy coffee and use roasting plants in the US and also Amsterdam. We tend to measure at one level which is the total purchase, that is, 14% of the global market. That is bought at a premium price of $1.42. In terms of the retailing element—we will not buy specifically for the UK market—we have seen a consumer increase in ethical, including fair trade, products over the past few years. We offer Fairtrade as a fresh-brewed coffee daily in the UK stores, and we offer whole bean. One of the range is a Fairtrade Café Estima blend which includes Fairtrade coffees from Latin America and East Africa. It is always available in our stores and today probably 6% of our whole bean coffee is under the FAIRTRADE Mark.

**Q71 Joan Ruddock:** Six per cent of the coffee consumed in your outlets comes under Fairtrade?
Mr Burrows: Yes, indeed.

Q72 Joan Ruddock: I confess that I have not been in one recently. My hours are such that I do not get out enough, but I understand—I have checked with those who know—that if one goes to a counter to buy a cup of coffee in a Starbucks outlet one must specify that one wants the Fairtrade coffee. Obviously, it is a minority product within the café, so when one goes to the counter one needs to ask for the Fairtrade coffee.

Mr Burrows: Most stores will offer two coffees every day: one will be a single origin or blend from somewhere round the world; the second one will consistently be a Fairtrade coffee, and that is a Café Estima Fairtrade-certified blend. It is always on offer in our stores, as are the whole beans. If one orders a latte that will not be a Fairtrade product; it will be one purchased predominantly under the CAFÉ practices mark because we have the same mix, recipe and standard in all our stores round the globe. Indeed, that has been a blend which is proprietary to our product since 1986.

Q73 Joan Ruddock: Given that practice, what is the scope for increasing—would you wish to do so—the amount of Fairtrade coffee that you sell here?

Mr Burrows: If one looks at the Fairtrade purchase, over the past several years it has gone from 1.2 million, to 2.4 million and then 4.8 million. We then broke through 10 million and last year it was 18 million lbs. We have a commitment to grow that and to offer our customers a range of coffees in terms of both origin and quality. There is a continuing interest in Fairtrade, so I see it growing. In my time with the UK business we introduced whole bean first, ironically, through Sainsbury. Then we introduced whole bean in all our stores and moved it forward to work with the Fairtrade Foundation to develop the Café Estima blend which gave us consistency that we can offer round the globe. In a sense, I think that has been one of the major achievements. We now have a recognised Fairtrade product that we are proud to share with our consumers round the globe.

Q74 Joan Ruddock: It is now 6%. Where might it be in five years’ time?

Mr Burrows: I really do not know, because equally we are committed to paying a premium for all our coffee and to ethically sourcing all our coffees. Part of that range will include Fairtrade. Mr Singh asked whether if it did not bear the Fairtrade label it was unfair trade. We have the commitment that in time all our coffees will meet all the criteria of transparency, price and quality and also social and economic criteria. That was how we started as a company. If we are to achieve our ambitions we have to ensure an ever-growing supply of sustainable quality coffee.

Q75 James Duddridge: We heard earlier that DFID had funded work in schools and a number of projects through Fairtrade to increase awareness. One of our jobs on this Committee is to hold the Government to account and make sure that that money is being spent well. Whilst not condemning that expenditure, it strikes me that perhaps some of that money should have come from supermarkets and retailers. Do you agree that that may happen longer term, and what more can supermarkets and retailers do to promote fair trade generally?

Mr Burrows: That is a valid question. I believe that Fairtrade has done an amazing job especially in this country in raising awareness of the Foundation and the fair trade issue generally. We contribute to that through the promotion advertising and the payment of a licence for using the Fairtrade logo. In a sense there is funding. The other matter—I am sure that I also speak for Marks & Spencer—is that we need to talk to our consumers. They are incredibly inquisitive; they want to know what you are doing these days and they along with the workforce hold you to account. We spend a tremendous amount of time talking to and training our own employees in stores—we call them our partners—so they can share that information and conversation with consumers. I have here a fairly standard leaflet that we provide both for consumers and for educating our partners in the stores. It is about how we source our coffee. Mr Singh asked whether if it was not labelled Fairtrade it was fairly traded. Those are the types of questions being asked, whether by those in schools, by our own people who work in the stores in the UK or the more than one million customers who visit our stores every week.

Mr Barry: I think that this is the best money this Government has ever spent in addressing social and environmental issues. The change that has taken place in terms of consumer awareness of social issues and the awareness of retailers that they have to progress and make changes to their supply chain and mobilise change among producers has made a huge difference. Do retailers have to contribute? Yes, and we do so via the licence fee and Fairtrade price that goes back to the producers and all the marketing that we put into it. Interestingly, just after Christmas we had a team of 50 people in the room preparing for Fairtrade Fortnight: merchant buyers who make sure that we have the right products in the right store at the right time, technologists who manage the supply chain and marketers. Those 50 people across the business were involved in Fairtrade. That is a valuable commitment by the business to make a change. It is right that Fairtrade should be something to which retailers contribute, but I believe that those are the primary vehicles by which they should do it.

Q76 Chairman: That raises a question which perhaps is slightly unfair given that Ms Lamb has left the witness table, although she is sitting behind it. One of the matters that you have said is that there is Fairtrade which is a registered trade-mark and there is also the concept of fair trade. I just wonder whether there is a danger of confusion. We go back to Mr Singh’s question. People are asked whether they want Fairtrade coffee or Starbucks coffee. That is not a good mix. Looking at it the other way round, if the Fairtrade Foundation says that it is the only...
fair trade organisation there is a danger of compromising other good practices. How do you reconcile Fairtrade as a registered trade-mark and the development of fair trade practices and ensure that they do not collide but operate in a synergistic way and add value to the concept?

**Mr Burrows:** That is an excellent point to make. Obviously, there are other marks alongside Fairtrade. You mentioned the Rainforest Alliance. There are other marks such as the Organic and Soil Association. We must as a country with the support of government, select committees and DFID work—I do not say “educate”—to achieve standard criteria for trading. The more we can get synergy across marks or what they stand for not only in this country but elsewhere—TransFair and Fairtrade are two different logos but they are committed to the same end—publicise them and share them with the public the better the public will be informed.

**Mr Barry:** All our market research tells us that consumers want a minimum number of trusted labels in the line. There is a high degree of trust in Marks & Spencer and many other retailers in the UK, but what they are saying is that they still want us to use an independent mark where possible. We believe that the ground-breaking work of the Fairtrade Foundation particularly with commodities—cocoa, cotton, sugar, coffee and tea—gives huge reassurance to the consumer about how to do that. One must remember that the British consumer has been on a journey. Back in 1990 the British consumer was probably the most trusting in the world. There was a succession of food scares in the 1990s: GM food, mad cow disease, foot and mouth etc. That left the consumer in the UK pretty bruised. Consumers became concerned about what they were being told by scientists and government. As a result of that uncertainty consumers are saying to us that they want to make sure there is an independent voice just to check it and keep an eye on it in order to understand what is going on. Would we be better off if every British retailer had a different approach to social development? I do not think we would. By all of us backing the FAIRTRADE Mark we support each other and become a much stronger set of retailers in terms of what we are doing and how we deliver it.

Q77 **John Barrett:** I want to move from coffee to cotton. Mr Barry, you said that this was an area in which Marks & Spencer was involved. I think that the plan is to purchase one-third of the world’s current supply of fair trade cotton. Can you explain how it will work? You will buy cotton and then make a Marks & Spencer cotton shirt. How will you know through the supply chain exactly what has happened at different stages, and how can you guarantee that the cotton you have purchased under this label and the product that ends up on your shelves is the result of fair trade right through the supply chain?

**Mr Barry:** Cotton is a great example of an industry which cries out for fair trade. It involves millions of small producers across the world and it has some major social and environmental challenges. Cotton is the most heavily used fibre for clothing production round the world. About 50% of clothing is made from cotton. For many years we have been trying to work out how we can drive better standards and understanding of our cotton supply chain. Frankly, we struggled. We are the biggest clothing retailer in the UK and we use about 60,000 tonnes of cotton. We were banging our heads against a brick wall. Along came Fairtrade which has given us a route to build that traceability down through our supply chain. One must understand that in clothing production there are probably six or seven steps between the producer of the cotton and the shop floor on which it is sold. Marks & Spencer as a big clothing retailer is almost unique in understanding not only the garment factories that make the finished product but the mill that makes the fibre that is used and the dye house that puts the colour into the garment. We can go back three steps into the supply chain. Even we struggled to get back to the cotton field. What Fairtrade has done is help us to bridge the gap from the fibre mill back into the field. It has forced us to put into place certification and traceability systems such that there is in effect a passport that follows a batch of cotton through the supply chain. That was one of the main reasons why we had additional cost in the first range of Fairtrade cotton garments that we launched last year. It cost about £1 more. That £1 represented the social premium in terms of the Fairtrade price and also the audit systems and, to be fair, big inefficiencies in the supply chain in order to maintain traceability. A small example of that is that the huge cotton mills round the world operate 24 hours a day and process hundreds of thousands of metres of cloth each day. Every time a Fairtrade batch comes through one has to stop the mill, take out the main production and put that production through in order to maintain traceability and then start up the mill again. It is very inefficient for a volume operation. Last year we used about 100 tonnes of cotton in that way. We shall be using 7,000 tonnes over the next 12 to 18 months. Again, that is built upon traceability audited at each step of the supply chain to make sure it is done properly right down to the cotton field where the FAIRTRADE Mark is concentrated. To go back to some earlier questioning about how all these different standards fit together, I turn your attention to the Ethical Trading Initiative. It has been funded by DFID and it is a very similar organisation but involves different stakeholders. That is focused on the factory that makes the garment or finished product that we as retailers sell. They are driving better labour standards. That is not a mark that we talk about to the consumer; it is a supply chain tracing tool to demonstrate that we are managing our supply chain well. We are driving the disciplines of the ETI down each stage of the supply chain to meet the Fairtrade Foundation coming the other way, which is about making sure the cotton producer is well looked after. That is how cotton is working. As to where it will end up, in the next 12 months we shall be converting the entire range of our £5 T-shirts to 100% Fairtrade cotton and keep it at that price. We will not change that price. As to scale, that represents 12 million garments. Putting that in
context, we sell about 270 million garments a year, so that is a heartland, mass market product that can go Fairtrade, but it has been a challenge and we will have challenges in the future to maintain traceability.

Q78 John Barrett: What would be the price differential for cotton producers under the Fairtrade system? You said that you were able to produce an end product that is kept at the same price, but is there a certain percentage increase applicable to the cotton producer, as we talked about earlier in relation to bananas, or is it sustainability of the market or something else that attracts the producer?

Mr Barry: Obviously, we leave it to the Fairtrade Foundation to work out what the market price for fair trade should be, but typically it is 15 to 25% in the case of the cotton industry. As volumes increase it will probably come down a little. Typically, it is at least 15%.

Q79 Richard Burden: In addition to ensuring traceability, obviously in view of the approach of Marks & Spencer there is investment in various community projects, paying a social premium for social projects and so on. In a way, that presents you with other challenges, does it not? In one sense you can become another major international donor essentially; looked at another way you can just be involved in a philanthropic charitable transfer.

There is nothing wrong with that, but in development terms it is fairly old thinking. How do you come to a decision as to what projects you invest in, with whom you engage and how you ensure that maybe the more marginal communities are involved?

Mr Barry: Clearly, we are a retailer or shop-keeper; that is what we know best, and we shall never lose sight of that. We are a shop-keeper that wants to use our everyday selling business model and align it so that it makes a difference. Clearly, Fairtrade allows us to do that. Rather than Marks & Spencer developing its own model to help communities round the world, Fairtrade helps us do it. We get professionals from the Fairtrade Foundation involved. How do we identify which products to go with? That is a complex discussion with the Fairtrade Foundation and producer groups back down the supply chain to suppliers as to what can be done. When we looked at the £5 T-shirt that we were converting we wanted a simple range that every consumer would buy—it would have mass market consumer appeal—and that we would buy in a steady way, in that we would sell the £5 T-shirt every year. We worked with suppliers that we had had relationships with for many years in producing those T-shirts. They are trusted suppliers that meet all of the ethical standards that we require of them. In addition, these are supply chains that go back in directions that work for us: India and West Africa. There is no point in having a supply chain that produces cotton in one part of the world and you do not have access to that. For all those reasons, we identified cotton as the product that we wanted to work on next after coffee and tea. There are many conversations but, as the Prime Minister said earlier, we believe that trade can be a real driver for social development provided it lines up everybody: the consumer, the retailer, the supply chain, the producer and aid agencies and donors such as the Government, DFID and other organisations like that. Perhaps I may paint a little picture about our experience here. Over the past two or three years we have worked with a donor organisation called the Shell Foundation. That foundation has been investing money in our supply chain and helping producers meet the standard required so they can head towards fair trade production. It has done a very good job, but it has been very hard work. We do not want to get into a situation where we become a development agency. Marks & Spencer wants professional organisations such as the Fairtrade Foundation all the way down the supply chain to make sure that everybody’s interests are lined up with the market-place.

Q80 Chairman: One matter that we are trying to get to the bottom of is the extent to which this expanding market—everybody who has spoken to us says and the figures bear out that the consumer is responding—is nevertheless a niche market and it is one which makes a significant but small number of people feel better, or can it really make a contribution to redressing the balance? The Prime Minister of Dominica made a passionate plea at the end of his evidence for a fair development-oriented trade deal which this Committee endorses, but can fair trade really make a significant difference to the balance? Can it help to iron out the inequalities of the trade system? Is it a way to give poor people in poor countries a real opportunity to take control of markets in a way which helps them get out of poverty?

Mr Barry: We believe that it is. If you look at the work that Sainsbury and Waitrose have done with bananas and M&S with coffee, tea and cotton it can be shown that in a very competitive market-place it can become mainstream. These are huge parts of our business. The sale of 12 million T-shirts at £5 each is a £60 million business. I am sure that Sainsbury’s banana business is equally large, if not larger. These are decisions taken by businesses that are under tremendous commercial pressure. We believe that it is the right thing to do. Will it happen with every single range we sell? It will not because we do not buy all our raw materials from the developing world. We need models by which we work with British farmers, as we have; we need models by which we can source other material such as wood and fish where predominantly the issues are to do with the environment rather than social matters. But in terms of addressing the crucial raw materials in retail products that come from the developing world we believe there is nothing to stop the fair trade market expanding very significantly in future.

Q81 Chairman: We produced a report on private sector development and we were scratching our heads as to how we could kick start it. Maybe this is...
the best way to do it. DFID did not seem to know how to do that, but maybe it could do more here. What does Starbucks think?

Ms Taylor: Starbucks believes that fair trade is making and can make a significant contribution to poverty reduction. For Starbucks it is part of an integrated approach. We are also investing in loans that are made available to farmers and suppliers to invest in equipment and make it from one harvest to the next so they are not forced to sell their produce in advance at a lower price. It is also part of our social investment in schools and community programmes in addition to the work that we are doing in capacity-building to help our suppliers and farmers improve quality so their products get a higher price in the market-place. This goes beyond small producers and includes large producers as well. We believe that this integrated approach will make a major difference to the alleviation of poverty in communities where we buy coffee.

Q82 Joan Ruddock: Does Marks & Spencer make any purchases in China?

Mr Barry: We cannot get Fairtrade from China, although obviously we buy lots of product from that country. But all the factories there are covered by the Ethical Trading Initiative, so it is a different tool to solve a different challenge where the Fairtrade Foundation cannot necessarily go at this time.

Chairman: I thank both sets of witnesses. Given that this is Fairtrade Fortnight and the first evidence session we have had on the topic, you have given us some very positive messages both about what is happening and what the potential is. I hope that as we proceed with our inquiry we are able to build on those. This Committee is interested in what works to reduce poverty and clearly if this works we should do more of it. Thank you very much for coming along.
Tuesday 13 March 2007

Members present:

Malcolm Bruce, in the Chair

John Barrett
John Battle
John Bercow
Richard Burden

James Duddridge
Ann McKechin
Joan Ruddock

Witnesses: Mr Monjurul Haque, Artisan Hut Bangladesh, Ms Erica Kyere, Information and Education Officer, Kuapa Kokoo Limited, Ms Safia Minney, Director, People Tree, and Ms Sophi Tranchell, Managing Director, Divine Chocolate Limited; gave evidence.

Q83 Chairman: Good morning, and thank you very much for coming in to what is our second evidence session on fair trade products and fair trade issues. The fact that you are very much engaged in the production of both Fairtrade raw materials and Fairtrade manufactured products is of particular interest to us today. Obviously you are here to give us information and we are looking forward very much to hearing from you, so can I start perhaps with Artisan Hut. Having had the chance to find out a little bit more about you, obviously you have a really interesting operation in Bangladesh, can you tell us just a little bit about it, how big it is, how many people it employs, and if you are able to say what the turnover is and is it growing and can it grow; that is to give us a sort of introductory explanation of it.

Mr Haque: Thank you very much for giving me the opportunity to be with you. There are 31 Fairtrade organisations in the Bangladeshi Fairtrade Forum, which is related to IFAT, the International Fairtrade Association. There are 65 countries involved with IFAT and 300 Fairtrade organisations now are members of this organisation and Artisan Hut is one of them. Artisan Hut was started in 2002, with nine individual groups and 250 producer artisans.

Q84 Chairman: When you say nine groups, you mean nine work units, working together?

Mr Haque: Yes. It was our aim to create the Fairtrade business and, in Bangladesh, Artisan Hut is one of five leading organisations, those who are working for fair trading in the domestic market and abroad. Within these five organisations we have got around a $1 million export market, and 50% is coming from People Tree.

Q85 Chairman: Is it growing?

Mr Haque: Yes, it is growing. When we started, in 2002, our first buyer was People Tree and within five years our export sales have grown by 764%.

Q86 Chairman: How does it work, between Artisan Hut and People Tree; you say 50% of your exports go to People Tree, which implies that 50% goes elsewhere. How far back does your relationship with People Tree go?

Mr Haque: Five years.

Q87 Chairman: Do you sell products in a similar way with other people, or are they just sold on the market?

Mr Haque: Artisan Hut also export their products in the European market; the UK is fairly well covered, there is another organisation, and two in The Netherlands, as well as Artisan Hut working on clothing in the US market.

Q88 Chairman: Are you engaged entirely in Fairtrade products, and are you involved in any products other than these ones?

Mr Haque: We have a little group for leather also.

Q89 Chairman: Is that Fairtrade leather, or just leather?

Mr Haque: It is Fairtrade leather. We collect the raw materials from export oriented leather factory and then produce products in the condition of fair trade.

Q90 James Duddridge: What benefits do Artisan Hut producers get, and specifically what social benefits are there and also environmental benefits from being Fairtrade producers?

Mr Haque: Thank you very much for giving me the opportunity to be with you. There are 31 Fairtrade organisations in the Bangladeshi Fairtrade Forum, which is related to IFAT, the International Fairtrade Association. There are 65 countries involved with IFAT and 300 Fairtrade organisations now are members of this organisation and Artisan Hut is one of them. Artisan Hut was started in 2002, with nine individual groups and 250 producer artisans.

Q91 James Duddridge: Can you go into more depth about how much people are paid on a fair trade basis, compared with the average wage in the community, and how much of your profits financially go back into the community?

Mr Haque: In terms of wages, the definition is different, but Artisan Hut is transparent with the buyer as well as the producer label people, that is the skill we are using in the community, so we are providing at least 30% more wages for the artisans. In the Fairtrade business, we do not have a full year’s work, so I would say now that our textile producers are getting six or seven months’ work. This is the...
condition in Bangladesh with the Fairtrade groups. The other answer I would like to give you is, it is a 12% margin we have got from the business as well as those who are our buyers; they are also sharing their profit with us, which goes to the beneficiaries, like artisans.

Q92 Chairman: What do people do for the other five or six months of the year, if they are not working for you; are they not working or are they working elsewhere?

Mr Haque: This is our challenge and we are working hard on how to develop, how to manage the situation in a better way, because it is Fairtrade business. On the other hand, we are trying to create a domestic market, so our problem is, in Bangladesh, we are producing hand-woven fabric, and just meeting our demands. Before, traditionally hand-woven fabrics were strong in Bangladesh, but this last 10 or 15 years, with power looms being used, hand-weavers are losing their jobs. When we started the export business, with people like People Tree, we got the skills from the people, that is, before we started, and traditionally we produced the sharis, which are worn by Bangladeshi women, and lunghis, traditionally worn by the men. It is 2007, and in 2005 the demand changed, so we learned from the experts how to convert these things for the current market.

Here Safia has the sharis, the jacket, which is just selling in the European market—this is my dream, so now we are changing our fortune in this way. We have got a lot of barriers, and we are sharing with you what types of barriers we are facing and how we can solve them together, that is the main point, that is our main target.

Q93 Chairman: By showing the jacket, you have raised an obvious question in people's minds: what does that jacket cost in Europe and what do you get for it? Can you answer that question?

Ms Minney: If I may answer, the jacket costs £75. Typically, in the conventional fashion business, because everything is made by machine, as little as 0.5% of the retail price would be labour cost, so Fair Trade is looking at how to maximise the value added to create the maximum number of livelihoods, spinning, natural dyeing, hand-weaving, hand-embellishment work and then finally the tailoring. This is also imported Fairtrade organic cotton from an Indian project which was certificated with the Fairtrade mark in February 2006. Maximising the value added, can bring the component of the labour cost from 0.5% to between 7% and 10%. The point is how to create the maximum amount of livelihoods through selling one piece of garment, and this is key.

We have a world population which will be increasing phenomenally within the next 20 years, and a natural resource which we have in plentiful supply is people's hands; so really how to use this hand skill to put food on the table and to be able to allow an income level which enables people to send their children to school, to develop and run schools and social programmes within the context of the rural environment.

Q94 James Duddridge: I may have missed it, just coming back to the question; they cost £75 to buy in the shops, how much does it cost to produce?

Ms Minney: It would cost one-seventh to produce and we would be selling to the shops at 45% of the retail price; there would be VAT at 17.5%. The buying-in price would be three times that. Within that People Tree, will cover design, product development, environmental testing, logistics, imports, duties, warehousing, administration, marketing, sales administration costs, etc., etc.

Q95 Chairman: As I understood it, you are saying effectively you multiplied by seven the returned amount to the producers, compared with the open market, or whatever?

Ms Minney: Times 14, in fact; multiplied by 14. We estimate in our social review that producers are earning between 30% more to double what they would locally, or through conventional trade. This is through an ongoing programme of technical assistance and market exposure programmes, so producers come to Britain, to Japan, where our other market is, to understand the market, look at the distribution system, understand trends, so that they are empowered through trade, and we can isolate the barriers which keep them from using trade as a tool for development.

Q96 John Barrett: If I could explore with you, Safia, the role of government funding to enable new markets and new products in the Fairtrade organisations to develop. We heard from the Fairtrade Foundation that they were seeking funding from DFID over a five-year period to explore new markets and new products. Has People Tree received any government funding and do you think there is a role for DFID to play in funding Fairtrade organisations?

Ms Minney: Yes, I do. We have not received government funding in any way whatsoever. We are a fair trade company which I founded in Japan, which has less of a movement for fair trade and for environmental issues compared to the UK. We feel very, very strongly that DFID can support, at a very practical level, the further development of the fair trade supply chain that we, the fair trade pioneer companies, have developed. If we are starting, for example, an initiative for Fairtrade organic cotton in Bangladesh, this is a huge opportunity, but also there is a huge infrastructural expense where the commercial costs would not be covered in anything less than five years. We are supplying design and technical expertise and assistance to producers, 70 producers in 20 countries, funding that entirely from the sales revenue, whilst competing in an incredibly un-level playing-field where fast fashion is being sold with incredibly short lead-times, maybe four to six weeks—this is incredibly tough with funding. When we are working with fantastic organisations like Monjurul's but with an eight-month production time, with 50% advances which need to be paid because these organisations are so small that they do not have the collateral to be able to raise advances so they can procure quality materials and they can pay
their producers on time. I was very, very excited to hear about DFID’s support of the loan guarantee scheme to, for example, the Day Chocolate Company. We also need to look at multi-stakeholder approaches to ownership, so that producers can own the market access through organisations, fair trade companies, like People Tree, in a similar initiative. Also, we need to secure grant funding for assistance to producer groups, a very practical hand-holding through the fair trading process, not a theoretical, “If you try this then this is how you write your business plan” but something which really develops and builds on the skills that we have developed already in developing the fair trade trade, and in the other area would be in funding campaign work. We spend a lot of resources and time raising consumer awareness, which in turn puts pressure on the conventional supply chain to improve social compliance and meet the ILO Conventions on Labour Rights. Also in terms of environmental legislation and regulation—this is largely ignored by the conventional business as we see it today in the context of fashion.

John Barrett: Thank you.

Q97 Ann McKechnie: Last week we heard from Marks & Spencer, who said they were about to expand their Fairtrade into a much larger scale on the textile side, which as you have said, quite rightly, previously has been very small scale, with smaller organisations, such as your own, promoting it here. Now that we have Marks & Spencer and Topshop using, no doubt, the power loom weavers, as opposed to the hand-weavers, in terms of producing their product. How big do you think the market can expand? Ms Minney: This is a fantastic start, to get Fairtrade cotton, and it is using, no doubt, the power loom weavers, as opposed to the hand-weavers, in terms of producing their product. Low big do you think the market can be for Fairtrade garments, and do you see the Fairtrade mark becoming more for those who are involved in the industrial production rather than those in the hand-crafting market?

Ms Minney: The launch of the Fairtrade cotton mark came after some two years of consultancy, from fair trade companies like our own, with hundreds of hours that were invested into consultancy unpaid. We, the Fairtrade companies, have developed the Fairtrade standards, whether it has been for coffee, cocoa, cotton, or whatever. This is a fantastic start, to get Fairtrade cotton, and it is making a huge difference to the lives of cotton farmers in the developing world. In terms of the manufacture standards, this has not yet been developed. The Fairtrade Foundation have put on hold any development for three years, because they accept that they do not have the expertise to do it. We need to develop these Fairtrade standards, to go beyond social compliance. It would be a terrible shame if we stopped and we acknowledged and rewarded mainstream companies for doing the minimum, meeting the social compliance, the ILO	extsuperscript{9} Conventions on of Labour Rights, which should be respected as a minimum, as should environmental legislation, anything less should be criminalised. We have seen movement now, with the Company Law Bill going through, and we hope that, in 2008, again we will see further developments to hold companies accountable. I think what we need to do now is refine and develop the expertise that we have within the context of the fair trade manufacture supply chain. This is not expertise that Marks & Spencer have.

Q98 Ann McKechnie: Perhaps, unlike obviously a very small organisation like yours, organisations like Topshop and Marks & Spencer do have the means to do this from their own resources?

Ms Minney: Topshop have a collection called People Tree for Topshop and they acknowledge, just as the international designers working with People Tree through Vogue, that they do not have a fair trade supply chain, and that they come to People Tree to learn about it.

Q99 Ann McKechnie: Would you say there is a supply constraint, at the moment?

Ms Minney: There is an expertise constraint, because there has not been any investment in drawing out the expertise and developing the infrastructure for fair trade manufacture—not a supply constraint as such.

Q100 Ann McKechnie: Going back to John Barrett’s question, very quickly, do you think that should be something which organisations like DFID should be assisting you with, or is that something which the industry should be funding?

Ms Minney: Because of trade’s huge role, in terms of development and also in creating models for sustainability and livelihood promotion, I think it is absolutely DFID’s role to support this infrastructure and fair trade supply chain development, yes.

Q101 Chairman: Can I suggest that if you can give a bit more thought to that, in a note, it would be quite helpful, because, as Ann McKechnie’s question makes clear, we are exploring the extent to which, if the retailers are deciding there is a Fairtrade market, why will they not put in a lot more money, as opposed to DFID? If there are good reasons why DFID should, as well, or in different ways, that would help us; so if you have got further thoughts about that and could put them in a note that would be very helpful.

Ms Minney: Yes. I think there is a little bit of a misunderstanding here and it is a very easy one; the media are very confused too, which propagates this misunderstanding. What we have is ethical fashion; what we are trying to do is move the mainstream to meet basic social compliance and environmental legislation and we would welcome the high street manufacturers embracing these very strict criteria. The ETI	extsuperscript{10} membership, for example, is a voluntary scheme, it has no teeth, though it is a fantastic start, and it was encouraged and set up by the NGOs and fair trade organisations, together with industry and government. What we are looking at is really a push and a thrust to meet strict social compliance; that is not happening yet at Marks & Spencer. We are still

\textsuperscript{9} International Labour Organisation (ILO).

\textsuperscript{10} Ethical Trading Initiative (ETI).
seeing serious problems in factories in Bangladesh: we had a collapse of a factory just 18 months ago, killing 70 people, which is a product which is made for Zara, in the high street, so we are still not grappling with these huge social compliance and ILO Convention standards which are set. What we would welcome is some of the mainstream really embracing these standards, before talking about fair trade manufacture. Fair trade is working with the most marginalised people in the developing world; it is looking at the price but also beyond the price, the technical assistance, so that organisational capacity building in rural areas and long-term orders can be sustained. This is the area which is very much DFID’s remit; this is about trade and development amongst marginalised people, it is about livelihood promotion, it is about empowering producers and also community development and social development with it. Some people would argue that the impact of 5,000 producers, at the moment, in Bangladesh, who are benefiting from fair trade clothing is quite small. But, this started in the bedroom of my house in Tokyo; it started with an investment banker salary, for 15 years. Clearly, there is huge potential. You have ten million hand-weavers in India and Bangladesh living on starvation wages but actually that it is an industry robust enough to feed that many people, still, in this day and age, which shows that this is something which can create livelihoods in the most rural and remote areas, at the same time as feeding the people.

Mr Haque: I live in Dhaka City, the capital of Bangladesh, and in the city things are bad; 37% of Dhaka City is a slum area, and why was this 37% slum area created? Bangladesh’s foreign earnings come from the government factories, and most of the government factories were established in Dhaka City. I live near the Airport, in Uttara, it is a residential area, and alongside my house is a big garment factory. The factory workers come from the rural areas and a slum area is created. In Dhaka City we have problems with electricity, water and traffic. I calculate that if this 37% of people were not to live in Dhaka City, with the type of problem we have, the Government could take a simple initiative, they could take people outside of Dhaka City, and the Government would establish it, so that people could live in their own house and their livelihood could be better. Fairtrade is a small organisation. I work with only 250 people. We work in a village area with disadvantaged people; this type of disadvantaged people are not thought about, so Fairtrade comes to work with them to try to create employment and income-generating activities, trying to bring benefit in every sector. It is very, very small and impacts highly on the artisan, but we have got a lot of problems, such as training and skills, everything, but our hopes, as I told you before, are that from shari has come a jacket, so this progress gives us hope that if we are given the opportunity to work we need some support just to help raise us up.

Chairman: We hear you.

Q102 John Bercow: Safia, you argued passionately for public funding of Fairtrade organisations, yet one of the attractions of the fair trade movement is the way in which it has sprung up, evolved and developed independently of governments. Given that necessarily there will be an issue of the displacement cost of public funding eventually being withdrawn, can you offer to the Committee some estimate of the size of public funding which you think is required and over what period?

Ms Minney: Can I clarify your question, John. Are you talking about specifically fair trade clothing manufacture supply chain development; or are you talking about the whole fair trade movement?

Q103 John Bercow: I was talking more widely, but I am very happy to narrow and concentrate the question on the sector about which you are especially knowledgeable. You said, unhesitatingly and with some enthusiasm, that you thought, yes, public funding, whether for embryonic businesses, fledgling organisations or for those already established—you can elaborate on that—was desirable; you proceeded to explain why you thought it was desirable. My simple question is, what is the scale of the need and how long would it last, and I hope that is pretty clear?

Ms Minney: Firstly, I think that the best way to work is with the fair trade company pioneers within each sector, because they have the expertise and can develop a model which is the most practical, which gives the most efficiency and value for money. The social impact, we all have many years of logging what is working and what is not, how much input and how much impact, in terms of livelihoods and in terms of sales. An organisation like People Tree, for example, with a share issue to the producers, would benefit enormously from a loan guarantee of as little as £1 million, for example, which would strengthen the organisation and allow us to invest in design services and technical assistance services to small-scale producers. If one looks at grants, for example, to bring about a Fairtrade organic cotton project in Bangladesh, which is one country only, one might be looking at £250,000 over a period of three years to get an infrastructure which is a beginning. Half a million pounds would enable technical assistance and capacity building to 30 groups which we are partnering within the area of textiles in South East Asia. Specifically, if one were looking at creating an infrastructure within Africa or within Latin America, this again would be some £250,000, per region, as a ballpark, just to begin to set up the infrastructure. The key is really where to build on the strengths; the strengths are in Asia. We are talking with, for example, Social Venture Capital and investment banks but there is no funding available to do this kind of work, and I think DFID certainly need to support this development of the fair trade supply chain. I am pleased at DFID’s visionary support of Day Chocolate, because I think that this given birth to the fair trade chocolate industry which then has encouraged the mainstream to improve its trading practice.

Q104 John Bercow: Have you put in bids for the sort of funding which you have described to me so pithily?
Ms Minney: No, I have not. I work a 16-hour day and I have not quite mastered it; sorry.

Q105 John Bercow: It is only a matter of time, Safia, is it not, before your funding application will be winging its way to the appropriate department?

Ms Minney: Yes; absolutely, John.

Q106 John Bercow: Forgive me, because you did say something about how the principles of Fairtrade could be extended, or should be extended, but I am still not entirely clear, in my own mind, how you expect the beneficial effects of your own operations and those of other Fairtrade producers to extend to mainstream supply chains. I would be grateful if you could elaborate on that just a little bit, and in particular reduce it to terms which are readily intelligible to the average member of the public who is not familiar with the interstices of supply chains. Is it your view that, on the whole, we are paying too little for important products and that we need to pay more for them, or is it your argument—I see some shaking of a head, from a sedentary position, from somebody who is not a witness but no doubt who is knowledgeable about and attending to our proceedings—that you think simply the profit margins are too big and that prices could be kept down, but at some cost, in terms of profitability? What is the gravamen of the argument?

Ms Minney: Obviously, developing countries labour markets compete with each other for business. What is clear is that the social costs and the environmental costs are not incorporated in the price of products sold on the British high street. I have just come from the slums of Delhi, where children are making accessories which are heading for the British high street. There is no policing of those slums, there is no transparency of agency sub-contractors, and it is extremely difficult to have transparency, which is why transparency is so incredibly important within the context of fair trade. Clearly, John, the social and environmental costs, the social costs are based on the ILO Convention, based on basic human rights, the provision of a livelihood, the provision of the minimum wage, health and safety in the workplace are being ignored. Factory mass production and economic policy is often depriving people of their incomes, as Monjurul has explained. Middle-class people are going to banks to get loans to start a power loom unit—each power loom takes away nine jobs from the hand-loom sector, so the economic structure is undermining livelihoods and promoting poverty. The way that fair trade creates work is not only by paying a higher price and the longevity of order and stability through understanding what will sell in the market and giving technical assistance to produce a marketable product, it is also creating consumer awareness, so that there is pressure on the mainstream to begin to look at the triple bottom line, to incorporate the real social and environmental costs in the products. Whether DFID feel that actually they could create more social impact by improving the factory conditions of two million garment workers in Bangladesh, or whether DFID’s motivation would be to create incomes and livelihoods for a smaller number of the most marginalised people in Bangladesh is a philosophical question. The point is how do we create a tool which really empowers the producer and the consumer, because what is quite clear is that the market is not working to bridge this gap of information and to create the opportunity to support people to eat.

John Bercow: Thank you very much.

Chairman: Thank you. You mentioned chocolates; we will move into chocolate and I will ask Joan Ruddock to start off.

Q107 Joan Ruddock: I think twice Safia has referred to the loan to the Day Chocolate Company, which is now Divine, and I would like to invite Sophi to tell us something about Divine’s experience, because I understand that in your written evidence to us you attributed the success of your launch very much to the fact that you had a loan guaranteed by DFID, in conjunction with the DTI’s Small Business Unit. I would like to ask you why should DFID underwrite guarantee loans to small companies in the sort of business that you are in?

Ms Tranchell: DFID’s underwriting of the guarantee is the first time that instrument has been used. For the individuals involved, I think it was quite a courageous move, because they had to go to the European Commission and put it to the Competition Commission, and eventually they had to change the Charity Act, so it was not something which was done lightly. It was signed off from the Ghana Desk, whose aim is to alleviate poverty in Ghana; they have a lot of interesting private sector development. There was a huge challenge. The loan guarantee made it possible to do it in a way which gave the farmers ownership. If what we had to do was just come back to Britain and find investors to invest in the proposition, normally when people are investing in a company they put in 30% of the money and they get 30% of the company; what we had to do was persuade people to come into the company and not get 30%, so they discount immediately what they are putting in by 30%. The loan guarantee enabled us to access finance, which was missing because of our ownership structure, but it was not only that it enabled us to access finance, it gave people confidence in the proposition we were making. It made people realise that, although it was a very lovely idea and a rather sweet idea, also it had some legs, we were here to stay and there was a business proposition behind what we were saying. The fact that DFID did that was fantastic, and the thing...
which is interesting now is, here we are, eight years later, and I think what is missing from what has been said is that we have built a Fairtrade market. It is not a sort of magic that if you do things with people in developing countries and you produce nice things then people will go out and buy them. Over the last 10 years, specifically, we have worked really closely with other Fairtrade pioneer companies and with the Fairtrade Foundation and with some very committed NGOs, some of which are on our board, such as Christian Aid, to build the market and build awareness with the population of Britain. That also has been funded by DFID, so a lot of our education work has been funded on a joint bid with Comic Relief and we have developed some very nice educational materials for that, a recent copy of which I will leave with you. We have not done this just magically, actually we have worked very hard at bringing the two ideas together, so that the loan guarantee has ended up not costing anything because the money is now back with DFID and DFID can decide now how they would wish to recirculate that money. Here we are, turning over £9 million, making half a million pounds profit and we expect to distribute a dividend this year, so the shareholders will receive some money from it, and the farmers get three other income streams from our company. They get a guaranteed minimum price, a social premium of $150 a tonne, which they invest in community projects, and a producer support and development income, which is 1.5% of our revenue income, which is invested in their organisation. If anybody has had any experience of running co-operatives, that is a big challenge; if you are running a co-operative with 45,000 people in 1,200 villages in remote and rural Africa, where you do not have access to clean water let alone a telephone and the internet, that is an amazing organisational feat, so that income stream helps them to do that. They had an election last year where 2,500 people turned up and they were supervised by the Electoral Commission of Ghana, and they voted on ballot forms, for each position, which had photographs of each candidate, and they came up with a new executive. That is an amazing piece of organisation in Africa; so that when you hear stories of Africa and how we build up civil society this is an incredible success story.

Q108 Joan Ruddock: It is an amazing success story. I can tell you that we have Divine chocolate in the House of Commons, and I think we would like to know how you ran such a very successful election; as politicians, probably we could learn quite a lot from that. You make a distinction between the fact that you had a loan guarantee but also you were saying you had actual money from DFID, in the form of grants. You have given us really a very clear idea of why a loan was absolutely critical. Why do you think DFID should give grants to people trying to do what you have done?

Ms Tranchell: The DFID Development Awareness Fund: Mini Grant Scheme, which is available for people who are raising awareness in the UK; the money went to Comic Relief so it did not come to a commercial company and it was with a very innovative education scheme. When we came into Fairtrade, in 1998, the demographic for Fairtrade was about 55-plus, so the market for Fairtrade was older people, and that was because the products which were available were coffee and tea. When we came in we had an enormous challenge on our hands, that if we were going to make this work we needed some young people to know about Fairtrade. What the Development and Awareness Fund enabled us to do was come up with a really fantastic education plan, which involved competitions which were supported by BBC television, so we levered up the money, and involved doing education packs, which went into 17,000 schools in Britain for free and has been part of their Citizenship curriculum, which I think is something which the Government has been very keen to have, some materials which are available to use in Citizenship education. From that, eventually we set up a website for Dubble, which is a product we do for young people, where you can sign up to be a Dubble Agent to change the world chunk by chunk, and now we have more than 50,000 young people signed up on that website for their mission, so that when they sign up they get a ‘mission pack’. The mission is to change the world in the ways that they can, so whether that is changing the way they buy things or their schools buy things, or whether it is asking their council to do something and to do petitions and it is getting them to be active citizens. It was not a piece of funding which was subsidising a commercial company. We were going well beyond what was necessary to sell a product and we were creating the people who enabled Make Poverty History to happen, the year before last. So that when Make Poverty History happened and the Governments did what they did and G8 came here, the reason why Britain was behind that campaign was because of the work, work like we have done, which was funded by DFID. For the £200,000 that we got from that grant scheme, I think they got more than they could possibly have imagined. The engagement of Comic Relief, the celebrities that they deliver, the fantastic proposition of a chocolate company owned by farmers, and the inspiration all that brings, really geared up the use of that money, so I think it was a really creative way to spend money. I think all of the Fairtrade sector has proven to use the money incredibly innovatively and really levered it for the benefit of producers in developing countries, and for the benefit of consumers in the UK whose consumption has become so much more active and interesting by the proposition we put on the table.

Q109 Richard Burden: You have emphasised there, Sophi, the importance of support from the Development Awareness Fund. I wonder how easy it was to get the money. We have had some evidence put in, from some quarters, suggesting that, compared with accessing grants from, say, the Department of Trade and Industry, actually it is
very difficult to access grants like that from DFID given their procedures, and so on. What is your experience of that?

Ms Tranchell: I suppose my experience of running Divine has been that lots of people have tried to help us, and one of the fantastic organisations which have helped us is Comic Relief. Obviously Comic Relief has a very well-developed education team and a very well-developed education proposition, where they are not wanting people to give money just once every two years, they want to change the way people think and the way that people do things in order to alleviate poverty for ever. We worked with them on that application and we had the benefit of their expertise on that, and certainly, the first time round, they led the application; the second time round it was on much more of an equal footing but it was still in their name. I cannot comment on how difficult it is compared with anywhere else, because I have not applied anywhere else.

Q110 Richard Burden: Do you think that, in a sense, from that, your perfectly proper connections with Comic Relief, the fact that Divine, by that stage, already did have a bit of a profile gave you an advantage, and if you had not had that it might have been difficult to find your way through to things like the Development Awareness Fund?

Ms Tranchell: There are two things. We did not have any profile, because they gave the grant in 1999 so it was before we had a profile, but obviously Comic Relief had a fantastic profile. I think they did have the imagination to think this was a proposition which had legs and that it would engage with people. Probably one of the things is, the fact that Safia has not applied to it means that it is not something people know about. So whether that is because the process is complicated. For big grant applications the process ought to be complicated, you ought to be able to put in a proposition which stacks up properly, but probably more people need to know that those sorts of funds are available and what the cycles are.

Q111 Chairman: We do not know that they are available. The Fairtrade Foundation have asked for £50 million. That is what we are exploring with you, whether they should be?

Ms Tranchell: I think the reason why Fairtrade has done so well in Britain is that there has been a rich range of people making what is now the Fairtrade proposition. I think it would be good if the money was divided among a group of organisations and not that you would give an enormous grant to one organisation.

Q112 John Barrett: In the world of chocolate, on which I am somewhat of an expert, branding is very important; we have Cadbury’s, Mars and Nestlé. Can you say what contribution branding has made to the success of Divine and is there a different growth of branding in the Fairtrade marketplace, or is it in direct competition with the big boys of the chocolate world? Divine has been very successful with its branding but the cocoa which is used in Divine is also used in other products. The distinct success of the branding, does it have a particular role in the Fairtrade marketplace or does it have a wider impact?

Ms Tranchell: I think Britain has been very interesting, because until last year we were the biggest Fairtrade territory, so we were the biggest market for Fairtrade in the world, and we have just been overtaken by America, this late on. If you look at the different European territories, some of which have been doing it for a lot longer than us, the difference is that we have some brands doing Fairtrade, and so Café Direct came in as the first brand on the shelf and showed that consumers were engaged by a proposition which was giving farmers benefit. They came in before the Fairtrade Mark came in and then they put the Fairtrade Mark on when the Fairtrade Mark came in. Clearly, being a brand has been a huge asset, but being a brand which has Kuapa Kokoo as the owners—Kuapa Kokoo are also a brand, in a way, because their story has been so completely interlinked with our story, and when you go on our website you will see them, and when you read the back of our blurb it says about Kuapa Kokoo and the co-operative and the cocoa that they are producing to make this product. Obviously, Divine is a fantastic brand. I cannot claim it, as it was there already when I got there. Brands speak to consumers in a way that nothing else does, and so clearly having brands is a good route to market.

Q113 Chairman: Maybe that is an opportunity to bring in Erica, because obviously you sell your cocoa to Divine but also you sell it to other companies. How do you negotiate with the other companies and to what extent does your connection with Divine help or hinder you in that process?

Ms Kyere: For us, in Ghana, there is a guaranteed market for cocoa so we do not actually have to negotiate with anybody. We have the Fairtrade buyers who buy our cocoa; the major buyers are Divine and Body Shop, also the Co-op. The Government, we buy from the farmers then we sell everything back to CMC and the CMC finds buyers outside, but Fairtrade actually has helped a lot of farmers in Ghana. We started in 1993 with 1,000 people and now we are talking about 45,000 farmer members. If they had not benefited from it I am not sure we would have got to where we are now; and by owning Divine we have had a voice everywhere in the world. I think we are here today because you have heard about us. If it had not been for Divine and then saying that we own Divine, I am not sure we would be here or that people would have heard of us, so Fairtrade really has helped us.

Ms Tranchell: The extra bit is that the cocoa market in Ghana is only semi-liberalised, so that the Ghanaian Government sells out all of the cocoa, so Kuapa Kokoo do not have direct relations with any other buyer.

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11 The Cocoa Marketing Company (CMC).
13 March 2007  
Mr Monjurul Haque, Ms Erica Kyere, Ms Safia Minney and Ms Sophi Tranchell

Q114 Chairman: This is a well-established market intervention in Ghana, given that they had collapses in previous times; this is Government policy, to provide a floor in the market?

Ms Kyere: Yes, it is.

Ms Tranchell: Yes.

Q115 Chairman: What you have said is that you would not have got there without Divine, or certainly you would not be here. For example, you sell Kuapa Kokoo to the Co-op, or whatever it may be; is your relationship with Divine helpful in that, or is it irrelevant, it is just another product and you can sell it as a Fairtrade product?

Ms Kyere: It is very helpful because, at the end of the day, we own shares in Divine and so everybody knows that Kuapa owns shares in Divine. Also Twin Trading helped form Kuapa. Twin Trading is an NGO based there. Actually, they are well versed in trade between the north and the south. Twin got us registered with FLO, that is the Fairtrade Labelling Organisation, and that is what has helped us; so Twin, Divine, Comic Relief, and everyone, have helped us.

Q116 Chairman: Presumably, you have a sales operation based in the UK, if you are selling to other companies: yes?

Ms Kyere: Yes.

Ms Tranchell: If I can explain, Erica is a Research and Development Officer and so she can tell you a lot about the work on the ground and with the farmers. The Fairtrade market, there is an importer who brings the cocoa from Ghana into Europe and then you can buy from them Kuapa Kokoo’s Fairtrade cocoa. We supply all of the Co-op’s own-brand chocolate anyway, so the Co-op does not have a direct relationship but it does have a direct friendship partnership, so it goes to Kuapa and talks with them and does business with them, but it does not actually buy the cocoa. Kuapa Kokoo’s commercial organisation, which is Kuapa Kokoo Limited, which is wholly owned by the parent company, which is Kuapa Kokoo Farmers Union, is a trading company which trades, this year, about 60,000 tonnes of cocoa, of which only 2% is sold on the Fairtrade market.

Q117 Chairman: How does that work?

Ms Tranchell: If I can explain, Erica is a Research and Development Officer and so she can tell you a lot about the work on the ground and with the farmers. The Fairtrade market, there is an importer who brings the cocoa from Ghana into Europe and then you can buy from them Kuapa Kokoo’s Fairtrade cocoa. We supply all of the Co-op’s own-brand chocolate anyway, so the Co-op does not have a direct relationship but it does have a direct friendship partnership, so it goes to Kuapa and talks with them and does business with them, but it does not actually buy the cocoa. Kuapa Kokoo’s commercial organisation, which is Kuapa Kokoo Limited, which is wholly owned by the parent company, which is Kuapa Kokoo Farmers Union, is a trading company which trades, this year, about 60,000 tonnes of cocoa, of which only 2% is sold on the Fairtrade market.

Q118 Chairman: I am sorry if I am being a bit dim but if you have got a fixed price within Ghana what extra benefit do you get from the Fairtrade dimension?

Ms Kyere: What the Fairtrade market does for us is give us a guaranteed price of US$1,600 per tonne; so the 60,000 tonnes that we are selling this year is times 1,600. Also it gives us social premiums of US$150 per tonne and this is what is invested back into the communities in which we operate; so if you drive through Ghana you come across a lot of boreholes, in Ghana we have drilled a lot of boreholes, about 300, in the villages where we operate. The co-operative has been able to invest a lot, with the help of Fairtrade, in education, so there are seven schools to the co-operative’s credit, also it has links with the medical school in Ghana, so we support them and also they give the farmers medical services. Cocoa is a seasonal crop, it is not a whole year round crop, so for half of the year there is cocoa, for half of the year there is no cocoa. What do the farmers do, because their income is in the cocoa which they produce, so we have also built a lot of capacities in that, so, apart from the cocoa, farmers now have other skills, they make special textiles, which they sell, others bake bread, others rear different kinds of animals which also they sell, so that the whole year round they can have money. There is a credit union which serves as a bank, so they can always go there, borrow money and then petty trade with it. This is what the co-operative has been doing in Ghana.

Q119 Chairman: There are quite a lot of extras you get out of being part of the Fairtrade dimension?

Ms Kyere: Yes.

Q120 John Battle: Just to follow that through, did I catch it right that the farmers in the co-operative have gone up from 1,000 to 45,000 members, is that right?

Ms Kyere: Yes, that is right.

Q121 John Battle: As well as the money they get from the direct selling of the cocoa, what happens to the money from the share in Divine, which you get from that 47% does that go into the building of schools, or how is that used?

Ms Kyere: So far, the building of the schools has been done with the Fairtrade premiums which we receive. I think this is the only way that Divine works.

Ms Tranchell: We have not yet distributed the premiums.

Q122 John Battle: To take another example, we did look at Ethiopia and coffee, and I think what was surprising was that the reach of the co-operatives into the villages was not as deep, let me put it that way, and did not include anywhere near 45,000 members, in one case, but the impression you gave was that the co-operative served everybody. Are there any benefits which other families or communities get, which do not belong to the co-operative and Kuapa Kokoo, does it spread into them, or are you recruiting new members, to get 45,000 up to 100,000?

Ms Kyere: There are two million cocoa farmers in Ghana, because Ghana produces a lot of cocoa, so every village in Ghana is involved. There are six cocoa regions in Ghana, so in all these six cocoa regions there are cocoa farmers. If we would drill a borehole in this village, it does not go just to our farmers, because, as a co-operative, you should have concern for everybody, so the borehole is for the whole village, not just for the farmers, so all of them tend to benefit from the social infrastructure that we do in the villages.
Q123 John Battle: To get the cocoa to the marketplace, to get it to chocolate factories, infrastructure is a big challenge. What are the obstacles which Kuapa Kokoo faces, to expanding its business? What are the obstacles in the way, is it infrastructure, is it transport, is it finance, what are the big issues?

Ms Kyere: All of what you say, because we are operating in five regions in Ghana, all in the middle belt, it is the rainforest, there is a lot of rain, so roads are not very good. It means that we have to buy a lot of vehicles and do extensive travelling. When the cocoa is produced you need to cart the cocoa from the village up to a place we call a depot, that may be in a city, before you can take it to the ports, so we face all these problems and we do not have internet facilities; if we had them I am sure we would be able to communicate with a lot of people. The telephones in some of these villages do not work, so we have all those barriers. That is why it is very necessary that DFID helps us in a lot of ways.

Q124 John Battle: Are you waiting for the Government to build the roads, or will you be funding the roads from the income that you get; how are you addressing the problem?

Ms Kyere: Actually, PPP\(^\text{12}\) have built some bridges but we cannot build roads because it is very expensive.

Chairman: That has been very helpful, from all of you.

Q125 Joan Ruddock: I have a different question, it does not follow directly, but I observe that both of you are women and I wonder whether you think that gender has played any part in the success of this enterprise, and to what extent there is leadership amongst women in the villages?

Ms Kyere: Maybe it has; yes, I think so. I also have a cocoa background and I realise that in the villages most of the time women are relegated to the background. The co-operative has an aim to empower women; that is the basic thing that the co-operative does, and we have actually got in there, from the soft looms that we are giving to the women to petty trade, telling them that they can do things better even than the men have been able to. Last year, at the AGM, which Sophi was talking about, they elected at the national level 20 executives and 12 of them are now women, and that is a very good thing. At the moment, the Ghanaian Government has passed the Domestic Violence Bill, so I think women are actually recognised in Ghana now and I think that has really helped.

Chairman: You will not have the experience we had in Ethiopia of going to an organisation, which was a women’s organisation, in which we were addressed entirely by men. Can I thank all of you for coming along and giving us that insight, which is extremely helpful. Can I repeat what I said before: if, on reflection, you have further thoughts about particular ways in which DFID could help, whether it is practical or financial, while the inquiry is ongoing, please feel free to contact our staff, because it will help us ask the questions of our ministers and formulate our report. We are here with an open mind, interested in how fair trade works, wanting to know how we can improve it and how we can deliver it and what the role is that DFID could play. So if you have further ideas please let us have them, we would be very happy to receive them from you. Thank you very much for coming in.

Witnesses: Ms Judith Batcheler, Director of Sainsbury’s Own Brand, Sainsbury’s, Ms Hilary Parsons, Head of Corporate Social Responsibility, Nestlé, and Ms Emma Reynolds, Government Affairs Manager, Tesco, gave evidence.

Q126 Chairman: Given what Joan Ruddock has just said about women, I guess you are proving the point. Can I thank you for coming in. Obviously, you are here as three separate organisations, not as a group, it is important that is understood, and you are speaking on your own company’s account, so the questions will kind of dot around a bit. If I can start first of all perhaps with Nestlé, we have an interest in the fact that you have become a Fairtrade company. I will ask you, first of all, because there was some controversy at the time, why you decided to launch a Fairtrade product and whether or not it has worked, in other words, the extent to which it has been profitable? Given that, as we confirmed when we had the Fairtrade Foundation here, there is obviously a cost of certification and regulation of the Fairtrade brand, is that absorbed by Nestlé, or is it part of the price; are you able to give us a feel for that?

Ms Parsons: We launched our first Fairtrade certified product in October 2005 and that was a product which took a couple of years to develop and was not envisaged originally as a Fairtrade product; originally we were planning to launch a sustainable product using criteria that we had developed for sustainable coffee practices over many years. We have been collaborating directly with coffee farmers for over 30 years, we have a very large direct purchasing scheme and we are very supportive of various sustainability projects in many coffee-producing countries, including the Common Code for the Coffee Community, which is about to become a reality this year. The projects that we established for Partners’ Blend we set up in Ethiopia and El Salvador working with smallholder farmers; at the same time we were having confidential discussions with the Fairtrade Foundation and we realised that with a few small adjustments the product could become Fairtrade certified. We launched the product in October 2005, it is now available also in Ireland, and a product called Zegás Hacienda has been launched in Sweden, which uses the same source of supply, so it uses exactly the same beans from Ethiopia and El

\(^{12}\) PPP Network Ghana Road Sector, a public-private partnership initiative.
Salvador but it is a roast and ground product rather than a soluble product. In terms of success, the coffee that we buy from Ethiopia and El Salvador, from the Fairtrade certified co-ops and from the sustainability projects that we have there, amounts now to about 2% of all Nescafé sales in the UK, so it is the equivalent of about 91 million cups. There were some costs involved in the certification; we met all those costs for the farmers, which normally the farmers would have to pay, we paid for that. Of course, there are licence fees which Nestlé have to pay, so the Partners’ Blend coffee makes slightly less profit than one of our normal coffees, we do accept that.

Q127 Chairman: That is not added to the price?  
Ms Parsons: No. The price is in line with other ethical coffees in the marketplace, so it is similarly priced.

Q128 Chairman: Does that mean it is slightly less profitable than your other brands?  
Ms Parsons: It is, yes.

Q129 Chairman: That would mean if it expanded faster you would suffer, so does not that have a disincentive for you to promote it?  
Ms Parsons: We believe in the sustainable practices which are at the base of the product, so it very much reflects Nestlé’s core principles, and as a business model it is profitable; as I say, it is slightly less profitable than other products. The reason that we launched it was because we wanted to produce a product which also had a direct although practical effect on the smallholder farmers, who had been affected badly in 2001 by the coffee price crisis, so that was the reason for launching it.

Q130 John Battle: Some companies which are profitable, such as Marks & Spencer and the Co-op, have switched all their own brand coffee and tea to Fairtrade and I wonder why you have restricted your engagement to just one product. Is it just a toe in the water job, to say “We’re flying a little bit of a flagship here”, to say “we’re vaguely interested but we don’t really believe in it”?  
Ms Parsons: No; absolutely not. We have a very large, direct purchase scheme and I think the launch of Partners Blend needs to be seen in the context of Nestlé’s broader coffee operations. We purchase around 120,000 tonnes of coffee, which broadly could be classed as where we are working towards sustainability. Of this we have about 100,000 tonnes bought directly from farmers: we have buying stations in seven coffee-producing countries, where the farmer can come and bring us his coffee cherries directly, and by cutting out the middle-men they retain more of the value. We have a team of agronomists who also work with those farmers. We also have Nespresso, where we have an AAA Sustainable Quality Programme with farmers, which is verified by the Rainforest Alliance, and 30% of all our Nespresso production is produced using that method at present. We are also supporting the Common Code for the Coffee Community, which is very much a mainstream approach to sustainability. It is about setting up baseline criteria for sustainability which will be benchmarked with existing certification schemes, for example, Utz Kapeh and Rainforest Alliance, and providing a kind of basic sustainable criteria. We are committed to buying that coffee as soon as it comes on the market, this year. Partners’ Blend and our collaboration with Fairtrade I think need to be seen in that broader context.

Q131 John Battle: That is the purchasing end from the producer. I am looking at the retail end really. What about other products; Nestlé chocolate, why have you not moved that towards Fairtrade, or do you intend to, and extend your range a lot more than you have done?  
Ms Parsons: Nothing is ruled out. At present we are concentrating on Partners’ Blend and the Zoëgas product and making that a success; but obviously we could look at other things for the future.

Q132 Ann McKechin: You have mentioned your Sustainable Quality Programme and I understand you have got what is called a Creating Shared Value scheme. Can you tell me what you think is distinct about the value of Fairtrade from these programmes?  
Ms Parsons: I think the benefit that Fairtrade offers, particularly in a market like the UK, is that the Fairtrade Foundation has spent a lot of time creating awareness of their programmes with consumers. It is very easy to communicate the benefits of your product by working with the Fairtrade Foundation, there is very clear consumer recognition, and we have tested this out in our own research; the logo is very well recognised. I think from the point of view of a branded goods manufacturer then obviously there is a benefit in the excellent work that the Fairtrade Foundation and the NGOs that they work with have achieved.

Q133 Ann McKechin: Would you not agree that one of the advantages might be the fact that they are viewed as being an independent organisation, they are not there for profit, they are not part of your shareholders, so that people can actually trust and rely on their form of certification?  
Ms Parsons: Yes, and I think people do, although our research shows that people are not too sure perhaps of what exactly lies behind the Fairtrade logo; but, yes, clearly they are trusted.

Q134 Ann McKechin: Do you think that consumers are confused when people start having their own programmes? You are not the only large organisation and company which has its own quality controls, but this plethora of different certifications makes it very confusing for the consumers?  
Ms Parsons: I would agree. I think one of the aims of the Common Code for the Coffee Community is to avoid precisely that confusion. The four-C programme is not going to be a product certification programme, so you will not see a logo on pack, just to avoid that confusion. There will be a baseline of
sustainability criteria, which will be benchmarked against the other certification schemes; members might be able to refer to their membership perhaps on the back of pack in small print. The advantage for farmers, we hope, is that if they have the baseline of 4-C then they can build on it with the other certification programmes, so that if they wish to be Rainforest Alliance they can do a bit extra to be Rainforest; if they wish to be Utz Kapeh, etc.; you would avoid the problem of a farmer having lots of different manuals in his farm office and perhaps lots of additional expenses. That is the aim of the four-C programme, which is about a mainstream sustainability approach.

Q135 Ann McKechin: Can I just clarify that Common Code for the Coffee Community, because I think it is the first that the Committee has heard about it; can I confirm whether or not it is certified independently, in any manner, or audited, also whether it includes the right to have trade union membership encouraged?

Ms Parsons: It is verified independently; there are criteria across social, environmental and economic aspects which will include labour standards and those types of issues. I have not got the standards with me but I can send you all of that.

Q136 Ann McKechin: That would be helpful, because I think we want to know whether it complies with ILO standards?

Ms Parsons: Yes; absolutely.13

Q137 Chairman: Is that the intention, that it would comply with ILO standards?

Ms Parsons: My understanding is that it complies with all these basic standards, yes.

Q138 Richard Burden: On that point, if the Code is there and that reflects ILO core labour standards, to what extent are those standards, labour standards specifically, incorporated in Nestlé’s own coffee or chocolate plantations, or the ones from which you draw your goods, or factories located in developing countries?

Ms Parsons: Our corporate business principles are very clear and they do incorporate all the relevant ILO Conventions. Nestlé does not actually own any plantations or farms. I think that is a distinction I must make. We do have some sourcing direct from coffee farmers; in the coffee and cocoa market many of the suppliers actually are very small farmers. You have been to Ethiopia. In Ethiopia, for example, the farms are virtually like small gardens and you find, for example, in the cocoa sector in West Africa, there are about two million smallholders, who then supply on to the open market. In terms of our standards, it is absolutely very clearly set out in the corporate business principles that these are checked up on and audited, but the supply base is smallholder farmers, and not necessarily organised in a way which can make some of these labour standards particularly relevant, if you are perhaps just one family, living on a farm, supplying into that marketplace.

Q139 Richard Burden: There have been reports that in the Ivory Coast, for example, child labour is being used, and not saying simply that this is children helping their parents, actually it is a much more organised thing than that. In The Guardian on 24 November last year, your Chief Executive was asked about this and he said there was “no doubt that there were children of a certain age working on farms, especially during harvesting time” and that the company was working with international agencies. He said: “We are trying to ensure that there is not undue child labour on those farms” which seems to be a rather odd way of putting it, “undue child labour”. Is child slave labour being used on farms from which you source?

Ms Parsons: In the cocoa sector in West Africa there have been issues reported of child slavery, and it is correct that family labour probably would be used on farms. The industry came together in 1999 to tackle the issue of the worst forms of child labour and forced labour, and it has been driven largely out of the United States but there is a Protocol, which was published in 2001 by Senator Harkin and Rep. Engels, which sets timelines and actions for industry to complete. Nestlé is very supportive and is a key part of that process, working with other manufacturers, like Mars, Hershey, etc., and a lot of progress has been made and there are programmes underway in West Africa to address this issue. There is an organisation called the World Cocoa Foundation which is active on the ground. There is also an organisation called the International Cocoa Initiative, which brings together NGOs and industry, which undertakes programmes on the ground to address these issues of child labour. We are working towards a certification scheme, in which 50% of the cocoa-growing sector will be certified by the middle of 2008, on this precise topic, and there has been good progress, particularly in Ghana, where the first pilot of this certification has taken place and the results should be published later this year. What I cannot do is say to you that I can guarantee that in every farm in West Africa there will be no child labour or no forced child labour; that is just not possible for me to say.

Q140 Richard Burden: How do the checks work?

Ms Parsons: What the certification process involves is, first of all, it is being done with the University of Ghana and other stakeholders.

Q141 Richard Burden: Let us say, the Ivory Coast, because that is where the allegations have been?

Ms Parsons: It will be similar. It is slightly behind, in the Ivory Coast, in terms of progress, compared with Ghana.

Q142 Richard Burden: Has there been any checking, as far as you know; you do source stuff from the Ivory Coast?

Ms Parsons: We do not source any cocoa directly from the Ivory Coast but we will source our product via international trading organisations. With the certification process that we are funding, with industry, there is work about to start on the ground in the Ivory Coast, and what it involves is, first of all, that data is collected, to see the extent of the problem, and then remediation is put in to tackle those issues. During that process, if any children were found in difficult circumstances they would be rescued and dealt with, and that is the role of the International Cocoa Initiative working with local authorities so the work is underway.

Q143 Richard Burden: I am sorry, I do not understand. What does that mean, if you find children in difficult circumstances you rescue them and deal with them; what does it mean?

Ms Parsons: During the data collection process, so when the researchers went out into the farms, to talk with the farmers, to talk with the village elders, etc., if they came across an instance of an abusive practice then measures would be put in place to deal with that, so remediation would take place as quickly as possible. If they came across other practices, such as children were not attending school as regularly as they should, then again remediation would take place to deal with that. That is how the certification process would work.

Q144 John Bercow: Hilary, precisely because you do not own any plantations or factories in developing countries but rather your products are sourced either directly or indirectly from some of the factories or plantations about which there is some suspicion, I put it to you, that actually increases the onus of responsibility upon you, as a company, to be absolutely sure that good practice is promoted and bad practice, gradually but preferably quickly, eradicated. Of course, how your company operates is a matter for you, and I was struck by the fact that you were able to reel off a litany of different organisations and initiatives, all of which I do not doubt is very impressive, but I have got two, very specific questions to put to you, and I hope you will be able to come back to us, if we were conducting a process would work.

Q145 John Bercow: I am getting myself into deeper waters. Hilary, what I would like to know quite simply is this. If you take a typical such plantation or factory, what is the person paid and for how long does he, or she, work?

Ms Parsons: For coffee and cocoa, there is not necessarily a plantation or factory; that is the point I was trying to make. It might be a small family farm and they are the farmers who are most likely to be part of the Fairtrade system, because they are small by definition, and in West Africa most cocoa comes from farms of that size, so there is not necessarily a bigger plantation with a controlling management unit and workers. In fact, under the Fairtrade Foundation standards, you are not allowed to employ more than one permanent worker; so there are not wages paid, in that sense, and the income is based very much on what products are produced on the farm, the price that can be obtained for them and whether they can diversify into other products.

Q146 John Bercow: It does seem to me, if I may say so, from your point of view as a big company, that, yes, there is a potential opportunity, and if you do it properly you are doing the right thing, but it is a potential minefield. If you will forgive me saying so, it does seem to me fairly obvious, or it would have seemed to me fairly obvious at the initiation stage, that it would prove to be a minefield and therefore that you would have had this enormous responsibility to devote every muscle and sinew to ensuring that every single part of the process was fireproof. In the light of the experiences you have had, baby milk and so on, it was blindingly obvious that a newspaper, sooner or later, would look into your claims and would make a study and say, “Well, this isn’t right, that isn’t right and the other isn’t right”. I think it would be marvellous if you were able to come back to us, if we were conducting a follow-up inquiry, in six months’ or a year’s time, and demonstrate, on every single stage of the process, that Nestlé was beyond criticism?

Ms Parsons: I think that is why we are spending so much time in creating traceable supply lines and it is why we have committed ourselves on coffee, for
example, to the Common Code for the Coffee Community, which will be very much traceable. We are committed to increasing the amount that we buy, we are working very hard to achieve just that, so we very much acknowledge that.

**Q147 Richard Burden:** Just a factual thing really. If we were conducting that follow-up inquiry which John Bercow mentioned and we came to Nestlé and said, within the Nestlé organisation, who was responsible for ensuring that ILO labour standards, for example, were adhered to, what would be the answer to that? In terms of independent monitoring of Nestlé, who would you say would go to that independent monitoring body?

**Ms Parsons:** We have a compliance committee and we have a person on the Executive Board in Switzerland who is responsible specifically for ensuring that Nestlé complies with corporate business principles, and markets also have similar mechanisms, so there are specific people who are responsible. Obviously, it depends on which aspect of the company is being looked at, but in the case of coffee purchasing we have a coffee purchasing department which is also responsible for dealing with suppliers. We have agronomists on the ground who, practically, will go out to deal with people; so we do have a system of compliance, making sure that we live up to the commitments and the corporate business principles.

**Q148 Richard Burden:** Who is the head of that area?

**Ms Parsons:** David Frick, is his name.

**Q149 John Barrett:** I would like to move on to Sainsbury’s, who are clearly in the lead, selling a larger volume of Fairtrade products than any other retailer, up 90% in the last year, £55 million worth of Fairtrade products. What percentage of your total sales—the figures seem very large but I guess your total sales also are very large—is accounted for by Fairtrade products? Also, bearing in mind that you said a number of reasons. If you look at our customers in total, against an index of 100, we over index, at about 208, in terms of our customers’ demand for Fairtrade products. In terms of growth and what we are projecting, we believe that 53 million will be 130 million this year coming, and next year will be 200 million and a couple of key things are driving that. I think this is where you start to look at the breadth of what Fairtrade is doing now and where it has come from and where it is going. A lot of what has driven that is some of the big projects, things like Fairtrade roses and flowers in general, things like Fairtrade bananas, and indeed clothing, where we have moved into Fairtrade cotton, versus, historically, there have been a lot of smaller businesses. What we have got now is how you manage those two diverse sectors really, because they have got very different needs and very different requirements and that indeed puts a pressure on Fairtrade Foundation to help us deliver to those very different needs and very different issues for those different kinds of businesses. Plans for the future: probably I cannot share all of them but I would be happy to do that in writing, because obviously some of that is quite commercially sensitive, but I am happy to put that in a letter to you and the detail around that, but very ambitious plans because it is truly consumer demand. I think very ambitious plans, because one of the things that is becoming more important to people, and particularly our colleagues as well as our customers—we have 16 million customers every week but we have 153,000 colleagues—is what constitutes worthwhile work for them and being a great place to work. We have about 3,000 of what we call ‘local heroes’ who are people who volunteer in their communities to do work, and some of those volunteer around Fairtrade. In fact, 20 of them we are sending out to Africa to look at some of the Fairtrade products that they have been supporting. We have also got full-time colleagues out there now for four months, looking at some of the projects and building those going on. Not only is there customer demand but I think people working for Sainsbury’s feel a sense of pride in supporting some of those initiatives; so there are lots of drivers. I think the last driver is probably the quality of the products themselves, in terms of, I suppose, no offence to anybody here, but in the original days of Fairtrade you were buying very much into the way the product was produced rather than the quality of the product itself. I think what has been the marked success of some of the businesses which have given evidence this morning is that they have produced quality products which do earn their place in a very competitive marketplace, which I think is a big trend. Not only are we producing something which connects with what concerns and motivates customers about the way that products are produced but actually we produce some damn fine products too.
Q150 Joan Ruddock: If I may, I would like to turn to your competitors, Tesco but also Nestlé. Hilary obviously has tried to convince us that there are many other schemes, certification schemes, and that these undoubtedly will produce fairer trade, but we particularly like to think that Fairtrade adds even greater value than some of the certification schemes which you yourselves have suggested. The percentage of your trade that is Fairtrade is important to our inquiry. I would like to ask both of you if you could give that, as Sainsbury’s has done, as a percentage of total sales?

Ms Reynolds: As with Sainsbury’s, it is less than 1%, less than 1% of our sales are Fairtrade sales, but again it is a growing proportion. We have got plans to extend the ranges in which we currently offer Fairtrade products and there are some areas in particular where we are seeing really very rapid growth, so we anticipate that will increase.

Q151 Joan Ruddock: Do you want to enlarge on that; which areas are growing rapidly?

Ms Reynolds: We have launched a clothing range. In fact this week, Katharine Hamnett, the ethical designer and campaigner, has got a range coming to store of T-shirts, with the “Choose Love” and “Save A Future for Me” motifs, which we hope is going to be very successful. We have got Fairtrade socks in store as well, as part of our clothing range, and next year actually hope to convert a third of our standard T-shirts into a Fairtrade line, which will be Tesco branded.

Q152 Chairman: Is that Fairtrade cotton or Fairtrade manufacturing as well?

Ms Reynolds: It is altogether; it is everything.

Q153 Joan Ruddock: There is a distinction; we do know that people can have Fairtrade cotton, in terms of production, but then the manufacturing process has got nothing to do with Fairtrade?

Ms Reynolds: No; this is a Fairtrade brand.14

Q154 Joan Ruddock: Throughout the whole process?

Ms Reynolds: Exactly. That is just an example. There is a lot of growth in nuts in particular; we are seeing really new people buying into our nut ranges. These come from Bolivia, Mozambique and Malawi. There is a lot of interest in those products.

There is also the point that Judith was making about quality products that customers like being where we see a big drive.

Q155 Joan Ruddock: Can I ask about the range of services, because we had a conversation with the other people giving evidence earlier this morning about producing a jacket, and what I observe is that T-shirts are easy, socks are easy, but do you have any plans to produce more substantial items, which obviously have a much higher sales value?

Ms Reynolds: It was a relatively recent launch into a Fairtrade clothing line, so I think it will be a case of seeing how it develops from here, how our customers respond, how we can build our relationships with our suppliers and take it from there. At the moment, we have not got fixed plans to launch into different lines but it is not the case that we will not want to do so in the future.

Q156 Joan Ruddock: Can you tell us what has been the annual growth, can you go back a few years. You say it is still way below 1%, but at what rate has it grown annually?

Ms Reynolds: At the moment, it is about 5%.

Q157 Joan Ruddock: Hilary, do you want to add anything to what you said before?

Ms Parsons: Two per cent Nescafé in the UK, as I explained at the start, is from Fairtrade co-ops and sustainability projects in Ethiopia and El Salvador.

Q158 Joan Ruddock: What are your plans to increase, if there are any?

Ms Parsons: Certainly that has increased since we launched, but really it depends, I think, on consumer acceptance.

Q159 Chairman: You do not have a strategy to increase it, you are waiting to see how the consumers respond?

Ms Parsons: I cannot give you commercially confidential plans, but obviously we have other markets which also are interested.

Chairman: Your secret will be safe with us.

Q160 Joan Ruddock: I think actually you said, did you not, that Fairtrade was very well recognised?

Ms Parsons: It is.

Q161 Joan Ruddock: I think all the evidence we have received is that, because it is so well recognised, because there is consumer demand, if companies actually wanted to increase their range and their volume it would be pretty easy to do it?

Ms Parsons: You still have to have the costs involved of launching the product and there has to be a market for it. Certainly the research we did with Nescafé showed that there were many consumers out there who were interested in purchasing a Fairtrade coffee product but were not actually purchasing at present, and who would be attracted to the idea of doing that through the strength of the Nescafé brand. The launch of the product was very much about bringing these new consumers, who are
interested and who have heard about Fairtrade but are not purchasing the product currently perhaps, into the market. That is the strategy behind the brand.

Q162 Chairman: We had a very powerful evidence session with the Prime Minister of Dominica two weeks ago. Roosevelt Skerritt, who gave us a very strong indication of the benefit of Fairtrade bananas to his small island in the Windward Islands. I wonder, first of all, how you can do what you have done, which is to go entirely Fairtrade, and whether there is a downside to that, because the evidence would suggest, because you are buying Fairtrade, by definition, before you go 100% Fairtrade, you are buying something which is not fair trade, and those producers who were supplying you presumably are no longer supplying you. Whether it is your decision or that of others, it has been suggested, for example, that there has been a complete collapse of the banana market in Nicaragua as a result of people switching to Fairtrade in the Windward Islands and elsewhere. How do you explain that point, because clearly, when you launch your Fairtrade products, everyone says “it is wonderful, Sainsbury’s all Fairtrade”, but you are not going to tell them that there is a downside to it: is there?

Ms Batchelar: First of all, I think the point that you made about how we have moved supply bases, we have not. One of the principles is that, in terms of Fairtrade, we have always tried to work with, our existing suppliers to enable them to achieve that standard. There is a principle, because if you have got issues where they are not achieving a Fairtrade standard, the principle is to work through it.

Q163 Chairman: You are bringing Fairtrade into your supplier, rather than going to Fairtrade for a start?

Ms Batchelar: The existing supply base, yes; because the whole principle is you do not walk away from the problem, you face up to the problem and deal with it. In this example, particularly in Costa Rica, not just from St Lucia, where I think most of the comments come from, I think the biggest issue was around union representation and how we negotiated to get to that point. As a principle, we have not lost any of our existing suppliers, we are taking our existing suppliers on that journey, and indeed it is a journey, which will not be complete until the middle of this year. I think the other point is that we have not expected our customers to pay any more for Fairtrade bananas. To put that in context, already 25% of what we have sold, in terms of bananas, were Fairtrade before we chose to take that decision, so it was quite an easy decision, from a customer point of view, to do that. It was not quite such an easy decision to make financially, because that required us making a £4 million investment, which is basically the premium which is paid.

15 Ev 117

Q164 Chairman: It is a slightly tangential question but to what extent do you think that the WTO challenge, in the ending of the banana regime, has actually stimulated Fairtrade? Mr Skerritt was saying to us that the banana trade in Dominica collapsed and it has not got back to where it was. They had to consider “What do we do now?”—and Fairtrade seems to have been to where they have turned?

Ms Batchelar: For me, the whole stimulus for all of this has been the customer demand, not any other agenda, so the reason why we pushed this is essentially because it is what customers want, the first point we made really.

Q165 Richard Burden: Can we go back to clothing again, and this is specifically for Judith. I think, Joan Ruddock asked Tesco about the issue of whether the purchase of Fairtrade cotton extended through to other parts of the production process, and I think, Emma, you said that, in relation to Tesco, it went through the entire production process. In relation to Sainsbury’s, Labour Behind the Label has commended you for moving towards the supply of Fairtrade cotton, but I think also they have urged you to extend that to the manufacturer and other parts of the production process, and how do you respond to that?

Ms Batchelar: I think, absolutely right, so everybody is clear, the cotton that we are purchasing is Fairtrade cotton; the processing of that and the manufacture of the garments is not Fairtrade. The way that we operate is we have our own socially responsible sourcing policy and code of conduct, which applies to absolutely everything that we do throughout the supply chain. That is based upon the ETI Base Code which we use as our start point. In terms of the way that we deal with the other parts of the supply chain, that is exactly the same as it is for every single product which has got Sainsbury’s name on it. The obvious difference with the Fairtrade part of that is that they are paid the social premium, so the only difference for us will be that social premium, and again we would audit to those standards.

Q166 Richard Burden: In terms of the factories you use, which produce the garments which end up in a Sainsbury’s store, how is the monitoring of working conditions in those factories done by Sainsbury’s?

Ms Batchelar: In two ways. All of our social audits are carried out by an independent third party, so that was what normally would happen.

Q167 Richard Burden: Who would that be?

Ms Batchelar: It would be a number of organisations we would use which we outsource to, so SGS, ITS, a number of people. I do not know specifically who it would have been in this instance, but again we could give you that information.16 The second part though, and this is to put it in context, is that we are a tiny clothing business, so, unlike most of our high street competitors, our stores are smaller, most of them do not sell clothing, and for us this is a fledgling
business, we do not necessarily have the scale issues that some of our competitors have because we are, as I say, a small and growing, young business. We are quite close to our supply base, and in this instance, I talked earlier about having a colleague out in Africa for four months to drive some of these projects, both before we initiated this project and now, whilst out there she has been to visit the whole supply chain and will continue to do so. I think that is one of the, I suppose, differentiating factors for us, in terms of how we are engaging with Fairtrade, because one of the key drivers around Fairtrade, or what enables us to be confident about Fairtrade, is being closer to those suppliers than normally we would be, because of the nature of the claim that we are making around putting the logo on the pack. It does drive some ways of working which are positive.

Q168 Richard Burden: As you have got the advantage of being compact in that and close to your supply chain, how would you, for example, and how do you, proactively promote, say, freedom of association in the factories you use?

Ms Batchelar: I think the biggest thing for us is being close enough to those people by being more familiar with them, that some of the things you might necessarily not be aware of become apparent by being familiar. In a lot of the ways that we deal with some of those things, the very geographic nature of where these places are, how often you visit them, is that you are not necessarily able to promote and support those things in the way that you would if you were present physically on a more regular basis. Being there physically, I think, is the answer to that.

Q169 Richard Burden: Can you give me an example at all of, say, any of the places where you have operated, where you can say, “This is what Sainsbury’s did to promote freedom of association, collective organisation by the workforce”? I realise it will be difficult in some places but are there any examples of where Sainsbury’s has done that?

Ms Batchelar: I cannot think of any specific examples now, but I am sure there are some, so, again, I will be happy to follow that up.

Q170 Richard Burden: If you could give us a note on that, it would be helpful?

Ms Batchelar: Yes.17

Q171 Ann McKechin: This is one for Emma. I am sure you will be aware, Emma, of War on Want’s recent report about factory conditions in Bangladesh, poor working conditions, mainly a female, young workforce, long hours, low pay.18 I wonder what your response is to the allegations that were made and investigated them immediately, with unannounced visits from ourselves and with third party auditors to the factories which supply us in Bangladesh. We were not able to find any evidence to support the claims that were made and neither were the third party assessors, in terms of child labour or welfare standard and working conditions. There was a point about age. Almost everyone that we spoke to was proven to be 18 or above, there was one 16 year old but no evidence of child labour at all, but we are continuing to work with our suppliers on the ground. We have been training our suppliers there, in terms of making sure that everyone understands the standards that we require.

Ms Reynolds: We were obviously very concerned to hear the allegations that were made and investigated them immediately, with unannounced visits from ourselves and with third party auditors to the factories which supply us in Bangladesh. We were not able to find any evidence to support the claims that were made and neither were the third party assessors, in terms of child labour or welfare standard and working conditions. There was a point about age. Almost everyone that we spoke to was proven to be 18 or above, there was one 16 year old but no evidence of child labour at all, but we are continuing to work with our suppliers on the ground. We have been training our suppliers there, in terms of making sure that everyone understands the standards that we require.

Q172 Ann McKechin: Has the third party report been published?

Ms Reynolds: There is no published report; it was third party assessors carrying out the audits. I can give you more information about it, definitely, if that would be useful.19

Q173 Ann McKechin: That would be helpful. I notice, in your written submission, perhaps you can clarify this, in terms of your principles of corporate social responsibility, you said you set clear standards, audit them to ensure they are complied with and support producers, “we can help raise the bar in developing countries” including safe working conditions, fair wages, reasonable working hours and the right to join a trade union, often for the first time. The War on Want report points out an advertisement, admittedly in the United States but in your US arm, in May of last year, where the job specification included maintaining union-free status and union-avoidance activities.20 Could you say whether that is consistent with your corporate social responsibility?

Ms Reynolds: I am not familiar with that. We are opening stores in the US this year, but from May last year, I am not familiar with what that would be referring to.21

Q174 Ann McKechin: That was quoted in the Financial Times article on 26 May last year; are you not familiar with that article?22

Ms Reynolds: No. We are opening up stores in the US this year; we have not got any stores open in the US as at this time.

Q175 Ann McKechin: Forgive me; if that is true then people may find your contention that you are encouraging people to join a trade union, often for the first time, is not particularly convincing. The War on Want report said they found only one person, in all the factories that they examined, who

17 Ev 116

18 http://www.waronwant.org/fashion+victims+13593.twl

19 Ev 124.

20 http://www.waronwant.org/fashion+victims+13593.twl

Fashion Victims: The true cost of cheap clothes at Primark, Asda and Tesco, War on Want, December 2006.

21 Ev 141 and Ev 187.

was a member of a trade union. Could you possibly confirm to us, of the audit that you carried out, how many were trade union members and what the level of representation was with the employers?

**Ms Reynolds:** I do not have the figures. As I said, I am very happy to go back and get the details of the third party assessments that were done and share those with you. I am more than happy to do so.

**Q176 Ann McKechin:** Can you confirm what the trade union representation was, from your studies?

**Ms Reynolds:** Yes; absolutely.\(^{23}\)

**Q177 Ann McKechin:** Also, if you could come back to us about the US advertisement, that would be helpful and if you could clarify whether you agree with it or not?

**Ms Reynolds:** Absolutely.\(^ {24}\)

**Ann McKechin:** Thank you very much.

**Q178 Chairman:** I would just say that I had a meeting addressed by Christian Aid, actually in my own constituency, where I asked the question about whether or not a £4 shirt available in Tesco, made in Bangladesh, had helped reduce poverty or increased poverty. The reaction I got was that “I wouldn’t buy anything in Tesco anyway”. The point on that I would make to you is that really it is in your interests to be able to answer those kinds of questions, because if people make allegations which are not true but you do not rebut them then people do not actually know. What we are trying to do in this report is make a contribution to helping people make informed decisions and obviously the more information we can get from you the better able we are to do that.

**Ms Reynolds:** On the point of Bangladesh, the information I have is that all the accusations that were made we have investigated and found nothing to substantiate them. We are still working with people on the ground and are undertaking supplier training and auditing. We have got the ETI Base Code as a minimum, in terms of the standards that we look for from all our suppliers, and we are committed to enforcing those and working with our suppliers to do so. We think the economic benefit that we bring through trading relationships in Bangladesh—

**Q179 Ann McKechin:** Can I interrupt, because I think it is important. When you make these inspections generally do you provide notice or do you just make on the spot inspections? I think one of the general comments has been that, quite genuinely, your inspectors arrive and they look at the books and they say everything seems to be fine, but because you have given advance notice you have given them the opportunity to come out with a second set of books, the books for the inspectors, to send away the younger workers and to tell people what they should say when the inspectors ask them any questions. I am wondering if someone has the right to go in without any warning and make an on-the-spot inspection or to question people when they come out of the factory anonymously and try to get some information from them?

**Ms Reynolds:** There is a combination of both; some are pre-arranged audits, we have ethical audits and technical audits, some are unannounced visits, so hopefully you will be able to address those concerns through that process.

**Q180 Joan Ruddock:** I am afraid I want to pursue a similar line of questioning. You may recall that you were also the subject of ActionAid’s report, which was called, I think, *Rotten Fruit*, and that was published in 2005.\(^ {25}\) This concerned the trade that Tesco have as the biggest buyer, I think, of South African fruit in the UK, and that report looked in particular at women employees, who complained of getting less than the minimum wage in South Africa, where they were picking the fruit, and also being exposed to pesticides. I understand, since that has happened, as in the case that Ann McKechin was referring to, some changes have been made by the company, but those changes, I believe, are about the conditions short of the wages. I wonder if you can give us chapter and verse on that? Then I want to ask specifically about the role of trade unions.

**Ms Reynolds:** ActionAid brought some concerns to our attention with regard to fruit in South Africa. We met with them a couple of times last year in South Africa, to discuss those concerns in more detail and ask them to share the evidence that they had for them, because obviously we wanted to investigate them and understand what they were. Again, we have not had any evidence which has been shown to us or third parties which corroborates the allegations which were made on pesticides, and more generally. We have not got a direct relationship with the farmers but do undertake visits to make sure that we are happy with the standards which are in place.

**Q181 Joan Ruddock:** If I can interrupt you, I understand you have established some voluntary codes, as a result of this report?

**Ms Reynolds:** We set up a forum with representatives of the South African Government, workers, our suppliers, and Women on Farms, the partner organisation to ActionAid, to work out how to respond best to their concerns. We are doing a series of independent audits; we are starting on apples and pears and we should be finished by May. It is 150 farms that are being inspected, to make sure that we have got the reassurance that all our standards are being met, and similarly so too have the other stakeholders involved, and really it is a multi-stakeholder approach, to make sure we all have that degree of comfort and security. Then we will be rolling that out to other fruit once this wave of inspections is complete. Everything that we have found has shown that our standards are being met, in terms of living wage as well as trade union representation and the other principles of the ETI Base Code with which we comply.

\(^{23}\) Ev 125

\(^{24}\) Ev 125

\(^{25}\) “*Rotten Fruit: Tesco profits as women workers pay a high price*”. ActionAid, March 2005.
Q182 Joan Ruddock: When you brought the stakeholders together to develop the voluntary codes, did you bring trade unions into that stakeholder group?

Ms Reynolds: They were involved via the individual workers, yes. Women on Farms is the organisation with which we are having ongoing dialogue.

Q183 Joan Ruddock: Is that a unionised organisation?

Ms Reynolds: I understand so, yes, to the best of my belief, but I will double-check.26

Q184 Joan Ruddock: Perhaps you could just check, because I think we are really keen to know, particularly given that American advertisement, and we know very well there are companies trading in the UK today which have that US philosophy “Keep trade unions out” and they employ people as managers to do just that. Clearly it is not the way we would expect a company like Tesco to behave and so I think we do need clarity on it. It would be very useful, as part of that clarity, to understand the situation which has developed in South Africa and the extent to which the workers who made those complaints to ActionAid now have more effective representation through trade unions?

Ms Reynolds: It is not my experience, through my work at Tesco, that we have a policy which is anything other than open and honest in terms of relations with trade unions, but I can try to get more information to give you that reassurance too.27

Joan Ruddock: That would be helpful.

Q185 Chairman: All three of you are in fairly big companies, although not big in everything that you are involved in, and the first problem that you have, presumably, is that you can respond to the niche, and the now rapidly expanding Fairtrade market, but you have to buy an awful lot of things on the open market. Given that is what customers are expecting, how realistic is it for you to be able to establish exactly the conditions in which everything you sell is produced, and is it not in fact what your customers, as the Committee is doing, are asking you to do? How possible is it for you to be able to stand up and say, ultimately, “All our products meet certain standards”?28

Ms Batchelar: The reality is we have huge numbers of policies and those policies are more detailed for the own-brand products that we sell—that is products which have got Sainsbury’s name on—than they are for branded products. If we were dealing with a large, branded manufacturer, we would expect a certain level of due diligence from them, in terms of what they do and how they operate their business, which, depending on their size, we put a check on and risk assess. We have a huge number of policies; basically we divide them into policies around quality, safety and ethical standards and we audit against those different policies on a risk-assessed basis, but essentially all people that supply to us would have some kind of audit on a regular basis. Those are things which customers would expect us to do but which we do not communicate necessarily through a logo or a scheme or an accreditation. Where we are making a claim, and that claim could be an ethical claim or a claim around the environment or a claim around health, then the due diligence we put into that is heightened. We tend to work with suppliers that we know well, and with whom we have a long-term relationship, when we work in those kinds of areas, so when we are putting a logo, whether it is organic, whether it is Fairtrade, whether it is FSC28 wood, we work in a slightly different way, because the expectation is so much greater.

Ms Parsons: Obviously, we have a similar approach. We start on the basis of compliance on the corporate business principles, which set out clearly our standards and policies in all the key areas, and we train our own employees in the corporate business principles and also they are shared with suppliers. Clearly then it will depend on the product, or if there is to be a claim on pack then obviously you have to have the certification or the independent verification; we have many practices and principles and people on the ground who can check that things are being produced to our satisfaction. Obviously, we do not have necessarily direct relationships with all the farmers who are supplying raw materials for our products, because clearly that would be impossible, with so many small farmers, but we do put procedures in place with perhaps co-manufacturers, or people who are supplying a semi-finished product, to make sure that things are produced in line with Nestlé principles. If there is a particular product you are interested in I can provide more information, but we do have quite extensive internal procedures and we a compliance committee as well.

Q186 Chairman: I suppose the point is, as Fairtrade expands, people look into every product; that is really the point?

Ms Parsons: Yes.

Ms Reynolds: Again, similarly, adding to what has been said, I think international supply chains are inherently complex and more complex when you are dealing with suppliers in developing countries based on infrastructure and governance challenges. We have our codes in place, with the ETI as a baseline, but beyond that, in terms of what we expect from our suppliers, we have a process in terms of risk-assessment, auditing and inspection to make sure that we are happy that our standards are being met.

Q187 Chairman: Fairtrade, and I am talking about capital f Fairtrade, has been hugely successful; their...
success is phenomenal and it is growing. On the other hand, understandably, people will say, “Well, they can’t be the only fair trade product.” What is your role, if you are developing your own standards, to ensure that what you do is as independently audited and as credible and has the same sort of confidence as Fairtrade, and does it in a way which does not conflict but complements and helps the whole fair trade movement to expand to meet consumer demand? How can you work that? At the moment, Fairtrade is ahead of you; there is more confidence in Fairtrade, however good your brands are, than there is in Sainsbury’s, or Nestlé, or Tesco, in terms of these things. If you are going to match that and add to it, how confident are you that you can develop your schemes in a way that will have the same degree of respect and also will not inhibit the expansion of Fairtrade, because obviously that would be counterproductive?

**Ms Parsons:** I think, from our point of view, we are not necessarily looking to develop competing product-labelling schemes with Fairtrade, because I think that would cause confusion. I think our role, as a company, is to make sure that the principles that we have in place are complied with, but not necessarily then extending that into some sort of seal which goes on the pack, in the way that Fairtrade does.

**Q188 Chairman:** But externally and independently audited?

**Ms Parsons:** Yes. As I say, with Nespresso, I think that is a good example of where we have the AAA Sustainable Quality Programme, and the tool and criteria for that were developed with the Rainforest Alliance and are independently verified by the Rainforest Alliance. Also we have auditing programmes, a Care programme, in our factories, for example, where we bring in auditors like Bureau Veritas, etc. We undertake external audits where necessary, we work on multi-stakeholder initiatives, like the Common Code, collaborating with other industries to ensure that there are standards adhered to, and try to do that in a way which does not cause confusion to the consumer through perhaps a proliferation of labelling schemes.

**Ms Batchelar:** I think the key thing where this has moved on, in the last 10 to 15 years, is, when I first started doing this it was all about auditing to make sure your products were safe and legal, and that was very much a minimum approach to things. We have moved way beyond the legal minimum approach to those things now, and I think, increasingly, making sure that those things which customers expect you to be doing, from an ethical and social point of view, and increasingly now an environmental point of view, we are doing. Are we planning to talk about that in an overt way, through more labelling schemes or through more logos or a mark, probably not, but planning to talk about it in a much more conversational style through some of the communications that we use, like our website, like our magazines and our direct mail opportunities. I think probably we are suffering, as an industry, from too many logos and too many schemes, that it does become confusing for customers, and we have had that feedback very clearly.

**Ms Reynolds:** I think the expectation of our customers is that the products we supply to them should meet certain minimum standards, and that is what we are committed to doing. Again, we support the Fairtrade brand because there is a customer demand for it, but at the same time we are working in parallel to ensure that the standards that we expect, as a business, and that our customers expect of us, are maintained throughout the supply chain.

**Q189 Chairman:** Independently audited?

**Ms Reynolds:** Exactly.

**Chairman:** Thank you very much. It has been both interesting and informative. Thank you for coming in.
Tuesday 27 March 2007

Members present:

Malcolm Bruce, in the Chair

John Barrett
John Battle
John Bercow
Mr Quentin Davies

James Duddridge
Ann McKechin
Joan Ruddock

Witnesses: Ms Sheila Page, Overseas Development Institute, and Professor Douglas Holt, Said Business School, University of Oxford, gave evidence.

Q190 Chairman: Thank you both for coming. By way of apology, I shall be leaving at about 11.15. I am going to the Service in Westminster Abbey to commemorate the abolition of the slave trade. John Battle will take the chair then. This is proving an interesting inquiry. The role of fair trade and its growth has impressed us. It has been rather more substantive than I think many of us realised and it is certainly beyond niche marketing in the kind of volume we are talking about. A number of issues arise. Indeed, when we were in Ethiopia, although we did not make a formal visit, we did pass a very large area of greenhouses which were growing flowers to fly to the European markets and employing very large numbers of people. That is happening in Kenya and in other countries as well. I was going to ask you this, Sheila Page. It came up on occasions like Mother’s Day and Valentine’s Day, War on Want had been campaigning, implying that (a) the people are being exploited, whereas the counter to that is that they have been given jobs, and (b) it is environmentally damaging to fly these products in to Europe. I wonder whether you believe that this kind of development is beneficial and sustainable, as I think the Secretary of State indicated that it is environmentally better than growing them in Holland under forced conditions, and whether or not therefore we should be encouraging more of it. Could you give your take on that debate. Clearly, the last thing developing countries coming into niche markets want is for us to get all environmental and say, “Thank you very much for your flowers, but no thanks”.

Ms Page: I think there is a real risk in looking at the environmental costs of looking at just one cost of getting the flower on to your sideboard. The growing of a lot of these flowers within the developed countries nearer to the UK tends to be very environmentally unfriendly. It is using even more fuel and glasshouses. If you have ever flown across bits of the Netherlands, you will have seen huge swathes of countryside literally covered with glass or plastic houses. That is not particularly environmentally friendly either. In order to answer whether a particular flower from Ethiopia or from the Netherlands or from Spain is more environmentally friendly, you do have to look at the full costs of producing it. It tends to be much lower in the developing countries, if only because they cannot afford as much of the expensive energy and expensive fertilizers as the developed countries can afford. Provided what they are using on both sides is costed correctly, you should make your own decision on the basis of which is the cheaper flower.

Q191 Chairman: That is a fair answer to the environmental point. What about the working conditions?

Ms Page: From the point of view of the working conditions, yes, they are not the sort of conditions that you or I would like to work in probably but they are better than not being employed and they are quite probably better than what the alternative is. The evidence on labour of this type—I do not know in particular about Ethiopia so I am not speaking about that—is that employees, certainly of multinational firms and to a lesser extent of those who are contracted to multinational firms, tend to have better working conditions than the average in developing countries. When it is contractual as opposed to actual employees of the firm, it is more distant; it is less certain how good they are. But the existence of pressure, the existence frankly of bad publicity if you are seen to be badly employing someone is a serious constraint on any retailers in this country, which would not exist on someone who was employing Ethiopian labour for the Ethiopian market.

Q192 Chairman: Does not Fairtrade, perhaps using capital letters, have a role to play? After all, that is what they are offering in coffee or chocolate. Why they should not do it in flowers?

Ms Page: As to why they do not do it in flowers, you will have to ask one of the Fairtrade people. I do not know. I think there is a risk in assuming that if something is not labelled “fair trade” it is unfair. I know the Fairtrade people themselves are always careful not to do this. It would be very wrong to assume that you should be promoting fair trade in something like this where there are reasonably competent businesses involved in doing it. The Fairtrade people may be useful at the margin for illustrating what can be done on a very open and accountable basis, but they do not have the scale of the large businesses that are involved in this, so if
you are trying to provide a lot of employment to Ethiopians, you are probably going to be using the normal businesses.

Q193 Mr Davies: Ms Page, you say that the consumer, if he or she wishes to be guided by environmental considerations in consumption decisions, should make his or her own calculation of, for example, the net carbon emission cost of growing flowers in the Netherlands as against Ethiopia. Even if the ordinary consumer has the methodology to do so, has worked out the right equation, he or she may find it difficult to calibrate it because they will not have access to the data required. Can you point us, and through us the general public who might be interested in this exchange, to any reputable academic work that has been done on that matter and which might give a guide as to whether or not the net carbon emission cost of growing flowers in the Netherlands is in general higher or lower than that of growing them in Ethiopia or elsewhere in Africa and then flying them in to Europe?

Ms Page: That is not exactly what I said, that the consumer should do. What I said was that provided the carbon, all the fuels, all of the inputs into the flower are correctly costed, the consumer can make the choice on the basis of price.

Q194 Mr Davies: Has that been done? Can you point us to that?

Ms Page: What I mean is that provided that both the Ethiopian grower and the European grower are paying the full costs of what they are doing, that is all the consumer needs to know because then the retailer is not selling at a loss and therefore you can rely on the price.

Q195 Mr Davies: That is not correct. The price, for example of aviation fuel, may or may not reflect the environmental cost of that. It is the same thing for the heating fuel that is used in the Netherlands. It might be subsidised natural gas. The prices may not reflect economic costs, let alone environmental costs. Most of the environmental costs are actually external and therefore not reflected in the price system at all, as I am sure you know. That is not a satisfactory answer to my question. How does a consumer make a rational choice as to what the net environmental cost is of flowers grown in these two different ways? Are you aware of any studies that have been done on this subject which can throw some light on the question?

Ms Page: What I said was provided the costs were correct; I did not say the costs were correct. I would agree that aviation fuel and heating fuel should all be correctly priced to all these people.

Q196 Mr Davies: You have provided that and against the value of your observations.

Ms Page: If that is not the case, then in a sense the consumer has to make a mental allowance for it but since the price of the Ethiopian flower is cheaper even than the subsidised European, it is not actually going to affect the price decision.

Q197 Chairman: You are not aware of any studies?

Ms Page: I do not at the moment know of any, no. I can check that for you.

Mr Davies: That is not a very helpful answer.

Q198 Chairman: I think it is a factual answer. Mr Holt, another aspect of the Ethiopian market is coffee. You have written quite a bit about that. We had the corporate responsibility director of Starbucks here. That was just after they had signed an agreement with the Ethiopian Government to back off from the trademark issue. She acknowledged, which I think you were suggesting would be the consequence, that the actual dispute was damaging Starbucks’ image and was ultimately perhaps damaging its consumer base because it was undermining its credibility as a fair trade company, which it claims to be. Can you indicate how you think in practical terms the difference between having trademarks and the geographic certification, which was what Starbucks was arguing, would make a difference to the incomes of the very small coffee growers in Ethiopia? We met, by the way, while we were there the head of the coffee growing cooperative, which of course not all of the farmers belong to. He gave us a flavour of that. Could you explain to us how you think the difference would work?

Mr Holt: I will do my best. Realise I am not a lawyer or a technical expert on certification marks versus trademarks. I can give you a business case, I suppose. The first thing to think about if I were the committee would be to ask why is it that Starbucks cared so deeply about how Ethiopian coffee growers organised the sector. It is fairly rare for a big company to go so deeply into its supply chain and care so much about those sorts of machinations to have public relations efforts, legal efforts and so forth to enforce a particular policy on their suppliers. I will let you make your own judgments but I make an argument in the papers that I have written that Starbucks is acting as you would expect a large publicly owned company to in pursuing its long-term profits, maintaining its market power. For Starbucks, certification marks are much more acceptable than trademarks because it is allowed to maintain its de facto ownership of these Ethiopian brands of Harrar, Sidamo and Yirgacheffe. The key difference is that with trademarks that is intellectual property; that is ownership of that mark that allows, if done properly, the Ethiopian coffee sector to organise collectively and act as a marketer of these marks. If they do it well, and there is no promise that they will, they will earn a lot more or extract a lot more of the value of their product in the northern markets. I think the difference is that the primary purpose of a certification mark, as I say in the second paper I gave you, is to protect against counterfeiting, to make sure that the coffee that says Yirgacheffe is Yirgacheffe coffee and it is not coming from somewhere else, it is not counterfeit coffee. There are no such problems that I have been told of in the premium end of the Ethiopian coffee sector precisely because Starbucks and Peets and all the other coffee buyers’ intermediaries are very careful to be buying...
the best coffee. Trademarks have a very different objective, which is to own intellectual property to run a business.

Q199 Chairman: A couple of points arise out of that. One is that the trademarks have been recognised in some countries in Europe, but of course not by Starbucks. First, has that made any noticeable difference or is it because it is really Starbucks that made that brand, it is not meaning very much? Secondly, do you believe Starbucks’ claim that in principle they have built their brand in a genuine belief that they are adding value to the producers and that they see themselves in the broadest terms of the word as a fair trade company.

Mr Holt: There are two different questions. Let me separate them. In terms of the marks that have been registered so far adding value, of course not. We have to be clear what the strategy in Ethiopia is. It is not that you get a mark and all of a sudden your coffee is worth more. You get a mark and that is an asset that you manage for better or for worse. Now, once they have the marks in place, that is the first step of a long process, a multi-year process, whereby the sector must organise and manage their distribution channels, manage their communications, packaging, et cetera, with the long-term goal of extracting more value. That has just started, as I am sure you know given your trip to Ethiopia. They are just starting to organise that stakeholder group, and I think that is what they call it, to market around these trademarks. It is a promissory note. That is exactly what is happening on the ground in the next couple of months.

Q200 Chairman: Starbucks acknowledged to us that the dispute with Ethiopia was damaging their corporate image and their customer base in the sense that they have built themselves up as a company that does have strong relations with producers and believes that they genuinely do have a fair trade approach. It may not be acceptable to the Fairtrade Foundation but they believe it delivers real benefit. I wonder whether you accept that they have a case to make.

Mr Holt: It is not a black or white kind of question. I think you have to give Starbucks credit as an unintended consequence of their aestheticisation of the whole category. They invented in some sense a mass scale, super premium, gourmet sector. In that they scaled it. By so doing, they increased the value of all those super premium coffees—in Indonesia, Latin America, East Africa. All those coffees are worth more because of Starbucks, and a number of other super premium retailers. I think the US has led the way. When you go there, the particular Harrar matters for some reason! They have done that but it is an unintended consequence of a very particular market strategy. Whether you want to give them credit or not, it is fine; it has happened and they were a part of it. Absolutely. I would hesitate, though, to call them a fair trade company as they are promoting themselves very aggressively today—“the coffee that cares”, selling Ethos water, et cetera—simply because they are unwilling, I think, actively to promote the business interests of their coffee producers. If they were, they would be supporting this trademark case because it is an innovative business strategy by the Ethiopians that has extraordinary potential if it is done right. If you are truly a champion of the commodity producers, you will be helping to innovate, just as Starbucks innovated 25 years ago, in the coffee sector—wow, is this not extraordinary. It is just live Divine Chocolate. Here are these Ethiopian coffee makers trying to develop a brand that they can extract more money from. This is what the more progressive coffee retailers in the US are doing. There is Green Mountain Coffee that has actually signed on and is actively trying to help the Ethiopians. If Starbucks were leading the sector, they would be acting like Green Mountain Coffee.

Q201 Chairman: You could argue the other way round. The Fairtrade Foundation started out by offering a fair price and social premium. Starbucks’ problem was that they developed a market and if they then have to give back the brand, they have to take it off their margin and of course they did not build it in in the first place. Presumably that is the nature of their problem.

Mr Holt: Possibly but I would argue exactly the opposite. What Starbucks is doing is taking a public good, a brand that is Ethiopia’s brand. Harrar, Yirgacheffe and Sidamo are not Starbucks’ brands. Starbucks piggy-backed on them and helped to build their value. It is no different from other companies like Nike taking the ghetto in the US and selling it. They are selling Ethiopian culture to Americans and to Europeans. While they certainly played a role in it, to say that therefore it is somehow their brand is something that I certainly do not agree with.

Q202 John Barrett: Can I turn to the Ethiopian Government’s strategy, Professor Holt, and how best to tackle this. The committee, as you know, was in Ethiopia recently. We discussed the issue of branding and trademarking. Some years ago, I was out in Ethiopia looking at the coffee business and visiting farmers. What we saw were, in the areas of highest quality production, the farmers and children starving. The fields were fertile; they were full of products. They could not change immediately into producing anything else. Some had grabbed out the coffee and they had put in khat, and narcotics were being grown. In the main, they were battling on with coffee production. While increased production is happening in Vietnam and other countries, is it really time for the Ethiopian Government to say, “While we want to get the best value for our farmers out of the existing coffee, in the bigger picture we have got to start looking at alternatives here. We are fighting a losing battle,” or should they be sticking with coffee. Is there a timetable for the overall strategy to change?

Mr Holt: I do not claim to be an expert at all in Ethiopian economics or export industry. Also, I cannot give you a close-up view but I can give you an opinion, which is that they make several of the best coffees in the world and that coffee has
extraordinary value. You are looking at starting a business from the bottom up with no assets; there is no HR and education, et cetera and so there are all sorts of problems in doing anything other than commodities, getting outside of agriculture and textiles. What are those other things besides khat? I do not know. It seems as though you have to stick with the asset that you have and figure out better ways to do business. There are two better ways to do business. I have read some of the previous transcripts and it seems that these two very different business strategies that are going on in this sector become a bit conflated in the proceedings here. It is interesting to distinguish them. There is a Fairtrade strategy that is a third party mark that adds some value to a lot of farmers potentially. There is also a social justice branding strategy, more like the Divine Chocolate strategy and more like what the Ethiopian coffee sector is trying to today, which could add tremendous value. It is an innovative strategy, it is newer. That is another complementary strategy between the two. I think those two strategies give the best chance of keeping those farmers in business.

Q203 Ann McKechnie: This question is directed to Sheila Page. You have been at times a bit critical about the notion of the fair trade concept. I wonder if you could comment on whether you consider it is a good method to offset market fluctuations to farmers or should we encourage farmers to produce commodities only if they can do so profitably?

Ms Page: There are two questions. On the question of fair trade, it is not that I would say that it is bad or unfair; it is that it is one possible strategy. I slightly take issue with what Douglas Holt has said about sticking to what you are good at. The whole history of all developing countries and developed countries before them was in fact of moving into other areas, other commodities, into industry, into services, or whatever. While there is certainly a case for staying in the premium brands of coffee for Ethiopia, given the advance of countries like Vietnam, which has moved from nowhere to now the second or third coffee producer in the world within a very short time, it is hard to see Ethiopia keeping its large share of the total market if it has in the past. It will have the premium market. I think my issue with fair trade is the idea that you should stick with what you are good at and do it better and more fairly, whatever. I think you should look at all of your possibilities. One of them might be to stick at what you are good at. One of them might be to move into something else. It is the focus that I would question. On the question of prices specifically, it is important to realise that minor fluctuations, the sort that any farmer knows happens from year to year, are not that serious a problem for most farmers, whether in developing countries or developed countries, but they do add to the real cost of farming. If the farmer is not bearing them, coming back to the first question, then he is being subsidised. I do not see any particular reason to subsidise a farmer, whether he is in a developing country or in a developed country. He should be encouraged not to have excessive costs of trading and if he can be helped with better supply, better ports, better transport, training to market, and so on, those will bring his costs to a level of an existing farmer, and that seems a reasonably sensible thing to do for a new entrant to a market, but simply to remove the cost of fluctuating prices is to remove a normal expected cost of farming.

Q204 Ann McKechnie: Against that, particularly in coffee and you also see it in the field of bananas and other produce, the world market price has literally dropped like a stone over a period of years, where in fact farmers cannot make a living. It is a question of natural justice. Should there be a minimum price on which people can be expected to live and should we be trying to use a concept like fair trade to try and promote that, or do you see fair trade really as being something which increasingly is being used to promote the premium brands, which we have talked about in Ethiopia?

Ms Page: I think where it has been most helpful has been in promoting the two senses of branding: the premium branding and the overall Fairtrade as a brand in itself. When a price is dropping like a stone, then that is a signal to get out. Fair trade can give you perhaps a breathing space of a year or two to get out. There is absolutely no reason to encourage someone to stay in an industry that is declining, whether it is bananas or some of the industries which this country has lost.

Q205 John Bercow: According to consumer surveys, 52% of the UK public recognise the Fairtrade brand. What, in your judgement, can the Fairtrade Foundation do to increase this level of recognition in a market where many companies are now claiming their ethical credentials?

Mr Holt: That assumes that that should be the primary goal of the Fairtrade Foundation. Coming from the US to the UK two and a half years ago, it is extraordinary how developed fair trade is here. There is a remarkable difference. In the US, fair trade is a little niche, not well known. I bet if you surveyed Congress people, less than 10% have even heard of fair trade. I bet that figure is 99% in the UK. It is in the media all the time. It is known to 45 to 52%. Getting to 60% to me seems like a less important objective in a country where fair trade is on the table; it is part of consumer culture; buying ethical content certainly in foodstuffs is something that has become normalised. Dodging your question a bit, I would push back and say: the objective for the Fairtrade Foundation should be to expand the reach of fair trade into other sectors where you do not have that really strong competition as we see in the grocery trade with Marks & Spencer, Sainsbury and Waitrose competing to be more ethical than the other. There is not much more you have to do. They are fighting tooth and nail to be the ethical retailer. In other spaces, in textiles, you do not have that yet. Nike, et cetera, pretend to be a little bit ethical in their supply chains but it is nothing like the fair trade generated competition in the grocery sector. To me, the real interest is moving sector by sector and
pushing the fair trade model into other spaces where you can get that very virtuous competition going amongst the leading retailers and leading manufacturers.

Q206 John Bercow: That is true up to a point, but I think only up to a point. Very few people would strongly disagree with the objective. It does seem to me that at least in part, if you will forgive me saying so, Professor Holt, you offered us a statement of the blindingly obvious. The issue is not the desirability of extending fair trade products but of extending recognition in a market in which lots of other people are trying at the very least to give the impression that they are doing the same. It is arguably a great tribute to the Fairtrade Foundation and to others that everybody now wants to be or to be thought to be behaving properly, but we all know the problem of the phrase that says, for the sake of argument, “no extra additives”. The significance is not in “no” or “additives” but the use of the word “extra”. I give that purely off the top of my head as an example. We have to become canny consumers, do we not? Forgive me; I do not dismiss the significance of what you have said. I come back to this question of whether or when, or even in different sectors with what speed, but how.

Mr Holt: I take your question but what you are talking about is not an awareness question; it is a qualitative question to recognise the authority and authenticity of a particular mark that has particular standards against these sorts of imposture marks that suggest the standard enough that consumers will buy into and assume it is fair trade. Is that correct?

Q207 John Bercow: Yes.

Mr Holt: I cannot come up with a cookie cutter answer to that. I think you would have to have a very developed marketing strategy for that. That is not just fair trade. I think activists are involved in that and I think government is involved in that and all the people in this sector are involved in training. It is a pedagogical challenge that you are talking about, which is going into the schools. There are lots of components to it. An involved marketing strategy of which you and the Fairtrade Foundation are a part, I think would be sensible.

Ms Page: I would agree that it is a marketing question. I am not sure the Government is particularly directly involved in it. In a sense, the Fairtrade imprimatur derives its value from the particular organisation which has set it up and from its standards. It is not an official one. It would be quite a change to make it an official one.

Q208 John Bercow: What you are really saying is: that is a matter for them.

Ms Page: Yes, and they have done quite well so far, so I do not think that is belittling them in any way.

Q209 Mr Davies: Professor Holt, can I come back to the issue of Ethiopia for a moment? You are very damning about Starbucks, are you not? If I can just quote you a couple of sentences from the paper you sent us: “The more syrupy drinks and sugary cakes Starbucks sells, the more it needs to aggressively promote its ‘roots’ in the artisanal, decommercialized world of African coffees to act as a counterbalance to its fast food-like offerings.” Again, “Sidamo and Harrar feature prominently in this line. In the US, Starbucks has retailed these coffees for $24–26/lb, instead of the $10–13/lb for the standard whole bean coffees, a doubling of their prior price, executed simply by positioning them as even more special, exotic, and scarce.” You are really accusing Starbucks of bamboozling the public, are you not?

Mr Holt: I am not accusing them of bamboozling the public. I am accusing them of being a marketer like any other. They are commodifying culture just like Nike, just like Coca-Cola, just like anybody else, so they are no different from anybody else. They are very effective at it. One of the points I wanted to make there is that the raw materials that they are working with—Africa, this pre-industrial craft good that has this 2000-year-old history that is associated with Ethiopian culture, the music, the design, et cetera—is becoming increasingly valuable in the world. Starbucks has been very good at cultivating this in the store, in the packaging, in the communications, and attaching it to this coffee. That is great except that a lot of the value, in my view, of that culture, of the history of the coffee, of the Ethiopian culture belongs to the Ethiopians and it would be great if they could enjoy some of the benefits of that $24 per pound.

Q210 Mr Davies: You are an expert in marketing and you know better than anybody the importance of brands. Brands are created, are they not? People have to invest in brands. They invest in brands both in terms of promotion and advertising but also, like in politics, you want more than a short-term success. You cannot just limit yourself to image-making. You have to provide substance. They also have to invest, for example, in verification, in quality control. You are acknowledging I think that it is Starbucks that have made that investment; they have actually paid for building up the brand and they had the strategy to build up the brand. Is that right?

Mr Holt: I think it is not just Starbucks. It is the whole super premium sector of which Starbucks is a part that has been instrumental in developing, as I said before, and aestheticising the whole category, and so creating value in the US from Folgers and Maxwell House selling for 30 cent a cup of generic coffee to people paying, as you know, $3 or $4 for a cup of coffee. So they created a new category of people where there are $2 margins in a cup of coffee. They did do that. The question, as I said in the paper, is not that Starbucks deserves this because they helped build it. It is a question like in any other market that there are different actors in the value chain and it is a question of market power. Value has been created. The Ethiopians are part of it. Starbucks are part of it. Other people are part of it. Who gets the rents? Right now, Starbucks is taking the vast majority of the rents.
Q211 Mr Davies: Just a moment, Professor. I have just quoted a sentence from your report. The increase in value from $10 to $13 per pound to $24 to $24 per pound was entirely created by Starbucks. The Ethiopians did not contribute to that increase in value; it was the Starbucks' investment in the brand, was it not? Is that a fair point?

Mr Holt: It is not investment. It is communication through the packaging—

Q212 Mr Davies: The communication is part of the investment, is it not?

Mr Holt: What they are communicating is Ethiopian-ness.

Q213 Mr Davies: Just a second, Professor. They are using the same raw materials they were when it was $10 to $13 per pound. That has not changed at all. What they have added is what you describe as communication, what we might call the PR, the promotion. They have added the brand value and they have brought it up, and you quantified it in your paper to us, from $10 to $13 to $24 to $26. That is value created by Starbucks, is it not?

Mr Holt: First of all, it is not quite apples to apples because they went in and selected the very best estate coffee in Ethiopia.

Q214 Mr Davies: But that was in the $10 to $13 value already, was it not?

Mr Holt: No, compared to the $13 version, it is the best lot of that, so it went for an extra 30 cents.

Q215 Mr Davies: Is it not the same coffee or is it not the same coffee?

Mr Holt: It is an estate that probably would have been incorporated into the $13 but it is the very best that they had to pay an extra 30, 40 or 50 cents per pound for.

Q216 Mr Davies: You have come from the Harvard Business School, and so we have rigorous academic standards here! You say: “In the US, Starbucks has retailed these coffee for $24-26/lb, instead of the $10–13/lb . . . . ” I read that as the product is the same and the price has changed. You are telling us that the product has changed. Your paper to us is a little deceptive.

Mr Holt: This used to be a 6000 word paper and it is now 3000 words. You have to simplify something and that is a very small simplification but it comes from the same lot.

Q217 Mr Davies: When you are dealing with simple politicians, you have to simplify, is that right?

Mr Holt: To your main point, Starbucks created this value. I am more than happy to give you that. The question is: should the Ethiopians be allowed to compete for a piece of that value or should Starbucks be able to put a legal stranglehold through their influence on the trademarks system in the US not to allow the Ethiopians to compete?

Mr Davies: I think we have established the fact that Starbucks have created the added value. Starbucks have created the brand. The Ethiopians could have decided they had some nice coffees. They could have copyrighted the brand years ago. They could have promoted themselves and they would have then been entitled to the full enhancement of value. In the present situation, Starbucks have created the brand but it might be sensible for them, and quite nice of them as well but also good for their image long-term, to share some of that enhanced value with the Ethiopians. I think that is the case that both you and Ms Page are making and to which I have some sympathy.

Chairman: I am not sure that Sheila Page is agreeing with you.

Q218 Mr Davies: I will come to you in a moment. Can I put it to you that there is another aspect?

Mr Holt: I am not sure it is sharing the value either. It is market competition, it is who owns the intellectual property.

Q219 Mr Davies: On a purely market basis, I think you would agree that the Ethiopians did not in any way register those brands and the brands were created by Starbucks. This is something I discovered in Ethiopia myself when we were there. The market is actually regulated in a rather extraordinary way in Ethiopia. I wonder whether you think the Ethiopians are serving their own best interests by doing this. Apparently the coffee merchants are a limited number of people; they have an exclusive right to go and buy coffee from the producers in Ethiopia, so you and I cannot go to Ethiopia ourselves and just simply bid the best price for the best coffee that we want to buy. Only Ethiopians can apply for this rather privileged position of being a coffee merchant in Ethiopia and there is more than a suggestion that this is a matter very largely of political influence. So we have both an element of excessive regulation in the market and an element possibly of corruption in the market. Surely that cannot be in the best interests of Ethiopian producers. Would it not help the cause of the coffee farmers that we are both concerned about if the Ethiopians deregulated this so you and I could go directly to the producers and we could have an open market?

Mr Holt: Is that a question to me? Again, I am not an expert in the Ethiopian coffee market but I can tell you what I have learnt since I have been working on this case. I think your point is correct that there are extraordinary not just inefficiencies but problems with the way in which the market is organised in Ethiopia, as there are in probably every country if you went in and studied it. Fixing those problems is just as important as making coffee fair trade. I certainly take your point. However, the idea that the answer is deregulation point blank, from what I know, that is not the answer. What I have learnt so far about the local market is that there are exporters in the market who are organised to control the market. There are a number of them that try to control the coffee market and the countervailing force to those exporters who are trying to extract the most market rents in the local market are the co-operatives. The co-operatives actually by legal
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mandate, so by regulation, are charged to give a much higher margin to the farmer than the exporters. I would say rather than deregulation what is very important in the local market, at least in Ethiopia, is to support the co-operatives, to grow the co-operative sector of the market so that more of the profit can trickle down to the farmer.

Q220 Mr Davies: I think we have established this morning that as well as the issue of resolving the ownership of the brand and the sharing of the value created by the existence of the brand, we do need to look at the domestic market. We probably do not have time to go into that. I would like to ask a final question to Ms Page about Fairtrade. Fairtrade itself is a brand, is it not?

Ms Page: The Fairtrade Foundation certificate, or whatever they call it—

Q221 Mr Davies: By “brand” I mean something which is non-substantive, which does not itself give any particular utility to the consumer, but which adds to the consumers’ satisfaction in a non-material way and that people are prepared to pay for. Is that a fair definition of a brand? If that is a fair definition of a brand, is Fairtrade a brand?

Ms Page: I do not know whether that is the correct definition of a brand. If that is what you mean by a brand, that is what Fairtrade is, yes. It is a label which people are prepared to pay for. It is a label which has varying degrees, depending on where you get it from, of substance behind it.

Q222 Mr Davies: If Fairtrade is a brand, and I think we agree that Fairtrade is a brand, the same issue arises as in the case of Ethiopian coffee: who owns the brand and what is the share of the value created by the brand? Is it your feeling that the share is a fair one as between the intermediaries and the marketers in the northern world, the developed world, who actually put Fairtrade on their labels and get a premium price as a result and between the original producers of the commodities that go into the product which is thus branded? Do you think that that distribution of value is a fair and reasonable one?

Ms Page: I am an economist. I do not deal with fairness. I deal with markets. That is a serious point.

Q223 Mr Davies: I think you misunderstand economics. Economics is a science.

Ms Page: Economics is not a science.

Q224 Mr Davies: Economics certainly deals with markets rather than making normative judgments about fairness.

Ms Page: In terms of whether the producers are getting a fair return from the people to whom they are selling, the only answer to that is that they are still selling to them. If they felt that they were getting an unfair deal, they would stop producing it and they would get out of it, or at least if they think they are getting a less unfair price from their current retailers or whatever than they would get from somebody else. I do not want to get into judgments about whether the distribution is fair or not. I do not think that is a helpful way of looking at it. I think what is helpful is finding ways of ensuring that they do have alternative ways to sell, both alternative things to sell and alternative markets in which to sell, and that is the best guarantee.

Q225 Mr Davies: If you do not want to address the normative issue of fairness, would you agree that the distribution is very much weighted in favour of the northern partners in this game, the northern partners who own the brand and market the brand, and that the proportion of added value which the original commodity producer gets is very small as a proportion of the total additional value created by the brand? I see Professor Holt is nodding his head. Perhaps he would like to answer.

Ms Page: I think that is true and I think that there is a problem in the fact that there is a distinction between labelling which is developed for the consumer and labelling that is developed by the producer. Fairtrade has been a consumer country led standard. I think it creates some of the same doubts in developing countries’ minds as any other standards that are consumer country led.

Q226 Mr Davies: Professor Holt, what is your answer to my question?

Mr Holt: I certainly think it is like an ingredient brand where it is adding ethical value to a standardised version of ethical value for a lot of consumers. I agree with you that the Fairtrade model has a lot of benefit. I read through the testimony of Marks & Spencer and others. One of the huge benefits to it is that it is easy; it is a turnkey system once the infrastructure is developed, which is very hard. If you talk to a number of entrepreneurs in this space, developing it is hard but once it is there, if you are Marks & Spencer, you just plug and play and it works. That is nice. The less nice part if you are concerned with the socio-economic issues is that the people who are using it are not part of the old alternative trade system that was fair trade 30 years ago, which was really connecting consumers and producers in creating as much value as possible for producers. They are commercial companies looking to make lots of money. They do make the vast majority of the rents on it. That is why I think Fairtrade is an absolutely essential model because it can be ubiquitous; it can be a model for the supply chain, for the retailers, but to extract more of the rents. That is why I think models like Divine Chocolate, like the Ethiopian coffee sector and social justice brands that allow some of those rents to go back to the south are absolutely essential. These are two very different branding models that we are talking about in these proceedings.

Q227 James Duddridge: I would like to direct a question to Sheila Page. The British Government has focused very much on fair trade issues. I think it is right that we do look at fair trade issues. To what degree is this really a cheap publicity stunt on their
part, and more seriously rather than a PR issue diverting them from the more fundamental problem of resolving international trade issues at the world trade talks and the Doha Rounds? To what degree, whilst it is laudable, is it distracting them from the much bigger picture and letting DFID off the hook?

**Ms Page:** I do not think it is distracting them. I think the UK Government is distracted, if you like, from international trade issues and the Doha negotiations but it is not because of fair trade; it is because it has many more different issues within the EU to deal with and since the UK is a member of the EU dealing with international trade talks means dealing first with the other members of the EU. Trade is not usually the first priority when it is deciding which position to fight for. The distraction from trade is important and it is happening but I do not think it is because of fair trade.

**Q228 James Duddridge:** Is it worse because we have a British Commissioner? Does that put us in a difficult position?

**Ms Page:** Yes. There were advantages in having the Commissioner from a notoriously non-fair-trade, non-trading country, yes, but that is getting beyond fair trade and my competence. In terms of DFID and fair trade, I think there has always been a problem in interesting development agencies in trade, fair or normal trade. It is not susceptible to easy measures like numbers of hospitals, numbers of schools and things like that. It involves dealing with the private sector; it involves all sorts of very messy things. It is difficult. There is a real problem in getting DFID or any aid agency to do this well. It is one which we and I hope you will be trying to get DFID to do more of in terms of helping production, helping training, helping countries to trade. There is an excellent agency of the Netherlands Government that basically brings exporters up to scratch. It does not produce new products. It merely tells people how to do the final stage of becoming a good marketer in a developed country. That is the type of thing that the UK Government stopped doing years ago and probably should do more of.

**Q229 John Battle:** I was not quite clear on your answer to Quentin. Should DFID give financial support to fair trade organisations, do you think?

**Ms Page:** Not only; I think it should be supporting organisations which help develop production for trade in developing countries, which includes some fair trade organisations, yes, but it should be doing it because they are helping countries to trade and producers to become traders, not only fair trade organisations.

**Q230 Joan Ruddock:** My question is also to Sheila Page and returning to the WTO. Under the process and production rules as you are obviously aware, it is not possible for retailers to give preferential treatment to fair trade products. If we take the case of bananas, then all bananas, whether they are fair trade or not, will come in under the same tariff regime. What we know has happened in the Windward Islands is that with the removal of the preferences under the EU banana regime, the Windward Islands have decided to go wholly to fair trade products in order to deal with their difficulties in maintaining their market. I wonder what you think about that. In answer to an earlier question, if I quote you correctly, you said that farmers should look at all their possibilities and that farmers should get out of a declining industry. What is your comment on what the Windward Island have done in respect of bananas?

**Ms Page:** If you look at the data for the Caribbean countries since the various changes since the end of the banana regime, what happened is precisely that. They have gone into tourism. In every country except Surinam tourism has more than replaced the income which they have lost from bananas. They have also tried to improve their bananas and gained more profit out of bananas, so it is not only getting out of the industry but the main remedy has been to get out of it into services. If you think about small islands with relatively poor land but extremely good climate, that does seem to be a fairly sensible advantage to be seeking. It is not true that retailers cannot choose. Consumers can choose on the basis of fair trade. As someone who grew up looking for the ILGWU label in clothes, I am quite aware that consumers can make these choices. They went on to look at fruits. Retailers can certainly label things and if you go into any supermarket, they have labelled them. The import regime has to treat them fairly. That is important because the reason it is not allowed in the WTO is not because it could not be put into the WTO. We have put a lot of these things into the WTO and GATT over the last 50 years. It is because the majority of the countries, that is developing countries, do not want it there. I think it would be quite wrong to say you must help developing countries by doing something that they do not want us to do. It is right that we should not try to change the import restrictions on it, but if a particular consumer or particular retailer makes a choice that is completely legal and it happens every time anyone shops.
discriminate against that. Telling people that they should only look at a Fairtrade label would I think be wrong.

Q232 Joan Ruddock: Is the Windward Island trade sustainable, do you think, on the basis on which it is being done?
Ms Page: I do not know. I think it might be if it is small. There certainly is a market for that many Fairtrade bananas. They should probably try to differentiate the bananas themselves more than they do, but I think they are moving in that direction with different types of bananas, not just Fairtrade. Yes, it is potentially sustainable but they should not be tied to it if it proves unsustainable.

Q233 Joan Ruddock: Of course. Given, as we have just been saying, that the WTO prohibits discrimination between products on the basis of the way in which they are produced, how best do you think the international community can encourage employers to respect ILO31 labour standards or should they?
Ms Page: I am not sure what you mean by “the international community”. The WTO will not do it. The ILO is trying to do it and has been trying to do it for nearly 90 years now. I think that the way to do it is to develop the conventions, perhaps encouraging individual producers to accept the conventions for their own suppliers and increasingly importantly the sub-contractors of their own suppliers.

Q234 Joan Ruddock: You do not think governments in developed countries for example which are receiving most of the products should have a role? You are saying they should not?
Ms Page: I think they should themselves accept all of the conventions. The UK has I think still one or two to accept. The US has a lot more that it has not accepted. Yes.

Q235 Joan Ruddock: Does Professor Holt want to contribute?
Mr Holt: I am not an expert in international trade policy, I am sorry.

Q236 John Bercow: I appreciate your argument, Sheila Page, that fair trade products in developing countries should not be advantaged over and above the vastly greater proportion of the output of developing countries that does not fall within that category. However, it does seem to me that as far as fair trade products are concerned, it is quite important to be clear, and I am afraid I am not, and perhaps you will ensure I am, whether those products are exempted from the duty-free or quota-free access agreement that I think it was sketched within the WTO. You will be aware that within that agreement are all sorts of loopholes which effectively protect the big trading nations. I put it very simply: it means that the free developing countries can export to us anything they like as long as there is not the slightest danger that anybody is going to want to buy it, which is a pretty cynical view by the big trading powers. Where do fair trade products fit within that continuum?
Ms Page: They fit within their normal category. A fair trade banana is just a banana from that point of view. Under the EU scheme, by 2008 all goods from least developed countries will enter duty free, quota free, fair trade, non-tariff trade bananas. That is the EU.

Q237 John Bercow: Those are LDCs.32
Ms Page: Non-LDCs have a huge range and since I think you have to finish this hearing this morning, I will not go into the full list of all the EU’s different arrangements with different countries. Under almost none of them is there any special provision for anything that would be considered fair trade. There are some provisions in some of the clothing and textile imports for hand-woven things, which has a certain correlation with fair trade, but that can be there because it is a different product. I am not quite sure what you asking. Countries have rules for what products can enter duty free and quota free which do not distinguish within each good, within bananas, within whatever.

Q238 John Bercow: What you are saying is that there is not a discrimination as between a fair trade product and another product. The judgment is made about the product line as a whole.
Ms Page: It is: are bananas allowed or not, and then all bananas are or are not.

Q239 John Bercow: You do not think that there is any evidence that although there is no formal discrimination against fair trade products, there is some sort of implicit assumption against fair trade products at all?
Ms Page: No.
John Battle: Thank you both very much for your contribution to our investigations into these complex areas. I think we almost ended up discussing whether economics is an art or a science. We could have been here all day on that. You have been most helpful to our inquiry.

31 International Labour Organization (ILO).

32 Less Developed Country (LDC).
Q240 John Battle: Welcome. We have got a half hour session with you and you have given some written evidence already. I wonder if I could start the session by asking whether you would like to tell us what the TUC position is on the significance of fair trade, how do you see it? Would you like to give us a few comments to start with and explain where you are coming from?

Mr Tudor: Could we introduce ourselves, first. I am Owen Tudor, Head of the European Union and International Relations Department of the TUC. My colleague, Bert Schouwenburg, is a GMB officer, but he is here mostly in his role as a board member of the Fairtrade Foundation. I think our view about the significance of fair trade for development is that it is one of a number of different things which can assist in development by providing, as is the point of fair trade, a better return for their labour to the producers of the goods that are covered, so our view is that it is one part. I am afraid I cannot really give you a judgment as to what percentage of the job which needs to be done in development is done by fair trade, or could be done by fair trade, it is one of a range of tools.

Q241 John Battle: Do you see the development of the Fairtrade brand that we were discussing earlier as an end in itself and an objective, or do you see it as part of a wider issue of trying to ensure that international trade rules are fairer to workers? How do you see the brand versus the workers’ rights issue?

Mr Tudor: It will come as, I hope, no surprise to the Committee that coming from the trade union movement I am not an expert on branding—we would possibly be in a better position if we were! Our view is that fair trade, like most of the other tools involved in development, is a means to an end, it is not an end in itself, and, as you describe, the end that we have in sight is a fairer return for their labour to those people engaged in producing the fair trade goods. I am uncertain also of the precise relationship, I have to say, between fair trade and the world trade system as a system. I was thinking about the relationship between the WTO’s rules and fair trade. There is a sense in which the WTO is in some senses beneficial to the concepts of fair trade in terms of depressing the labour costs which, in turn, results in long hours and very low pay for people who are involved in producing the goods that are covered, so our view is that it is one part. I am afraid I cannot really give you a judgment as to what percentage of the job which needs to be done in development is done by fair trade, or could be done by fair trade, it is one of a range of tools.

Q242 John Battle: Would you like to add anything?

Mr Schouwenburg: Yes. I think that is an important view, that fair trade is a means to an end, it is not an end in itself. What we believe in the trade union movement is really fair trade is nothing more than what all trade should be, because if you look at it in essence what fair trade is trying to do is give the producers a price that enables them to make a living so, therefore, that should be the norm. In fact, the difficulty is why all trade is not fair, because the tail is wagging the dog, that the power of the huge corporations, notably the supermarkets, are dictating the prices and these prices are such that the producers cannot survive.

Q243 Ann McKechin: Owen, in your written submission you say that for the ethical trade agenda to succeed there must be coherence between the demands of codes of labour practice and respect for workers’ rights and the retailers on brand policy on price and lead times. Groups such as ActionAid have been critical of the voluntary code approach taken by the Ethical Trading Initiative, which the TUC and others have supported quite vigorously, and said that the voluntary nature has had very little impact on the ground. Do you agree with that or do you see other ways in which the ETI should become more effective?

Mr Tudor: It is certainly fair to say that it has not had enough effect on the ground and it could certainly have more effect on the ground. I think the Ethical Trading Initiative itself has conducted research which indicates the sorts of things that would improve the effectiveness of the Initiative. Principal of those, I think, is the question about incentivising the use of those producers who are attempting to offer better circumstances to their workforces. There is an element, however, in what ActionAid say and I think generally speaking about these issues in terms of voluntary codes and so on, which I want to contest slightly, the trade union movement is not averse—that may be putting it too weakly—to the use of regulation and requirements on businesses’ activities. In the long run—and I hesitate if I am being teleological about this—the right result for the producers in those circumstances is going to be achieved by those producers, not by an external force that mandates that. In the long run that is less sustainable than a system where, you can call it voluntary if you like, it is a question about whether people reach by agreements a particular level of return for people’s labour or whether they have it mandated by some external agency because in the long run that external agency may change its mind.

Q244 Ann McKechin: This issue of price and lead times seems to be at the core of the problem in terms of depressing the labour costs which, in turn, results in long hours and very low pay for people who are down the chain of supply. How do we change this type of relationship in general?

Mr Tudor: I think there are two things going on. In fact, one issue is about the issues of lead times, pricing policy and competition and so on. One of the other things, however, that is restricting the ability of people at that end of the supply chain to get a fair return on their labour is the restrictions that apply to them about what they are able to do. In China, for instance, one of the critical problems is merely the
illegality of self-organisation of working people and the enforcement of those rights rather than necessarily being about lead times.

Q245 Ann McKechin: In a perfect world if every worker had access to proper legal rights and the ability to enforce them with independent trade unions, then a lot of these defects and the ineffectiveness in the supply chain could be addressed?

Mr Tudor: A lot of them could, and we would argue in particular, for instance, that is primarily the way in which developed countries have reached that stage. Obviously there was not anybody other than the developed countries to liberate them from those chains, but in terms of the issue of lead time and competition, which I accept has an enormous part to play, although it is about a power relationship, one of the key elements that we have got to change is the balance of power between the purchasers and the suppliers. The way in which those lead times work is a problem that needs to be addressed through several different factors and that is one of the reasons why we think fair trade is one of the ways of doing that but not the only way. In terms of the Ethical Trading Initiative, for instance, we think that it is more about attempting to encourage a particular approach to entire supply chains rather than running the ends.

Q246 Joan Ruddock: I think Ann McKechin has got you into the area I was going to discuss which was about improving the relationships between the supermarkets and those who are working for them. You pointed out that they had made profits, for example Tesco, of £2.2 billion up from £1 billion in 2001 but at the same time over that period they had cut their prices by 15%. It is not just about the things that you rehearsed with Ann McKechin but it is beyond that, driving down prices so that whatever relationships they might have had and whatever, presumably, trade unions or other representatives there were in developing countries, if you are determined to get your prices down to that extent inevitably you are going to drive down wages. It is very difficult to see what people could be doing if driving down the price to our consumer is the prime motivation.

Mr Tudor: I sort of agree. I have to say, I have not got the backing of a Harvard education to do this, but first year economics at Oxford suggests to me that it is not necessary to pay workers less to produce goods cheaper, there are other ways of doing it, you can improve the way the production is organised and so on. You mentioned Tesco, in particular, who I think were the people who invented “pile ‘em high, sell ‘em cheap” as a way of increasing profits. I think there is no necessary relationship between price and the proportion of that price that goes back to the people who are producing things, but I recognise that is a little bit of a hypothetical issue in many of these cases. A lot of the circumstances that you are talking about are derived from reducing margins from increasing turnaround times, increasing the speed with which people have to change production and so on in areas like textiles. I think that there is then an argument about how far there is a market for higher-priced goods which can provide more scope for people to take more out of that price. The evidence of the last few years is that there are tensions pulling in both directions, bluntly, and there is always a question about, “If I save money on my jeans, am I more willing to spend it on mangetout?” In my case, this is a fairly obvious decision! One of the things that increases the purchasing power of people in the West is cheaper prices on some things which means that they are then able to spend more money on premium-priced things. I do not know how far you want to go into an all-embracing discussion of the world economics system, I think there are simpler things to do.

Q247 Joan Ruddock: I think my colleague might be interested!

Mr Tudor: He seems to be coiled like a cobra and I am worried! There are simple things that can be done in terms of things like fair trade, ethical trade and development that do not necessitate going the whole way down some of the discussions that we can go down in these areas.

Q248 Joan Ruddock: Before he is tempted, let me take you to what is your field absolutely and that is trade unions in this country. The major supermarkets are unionised—to what extent do you involve your trade union members in discussions of this kind? Are they aware of the issues of the wages of their colleagues, as they are in a sense, in developing countries producing the goods that they then market from their shelves?

Mr Tudor: Bert comes from one of the unions that represents supermarkets so I will let him add something to that. Just as a general point, we are attempting to increase the amount that British trade union members know about what is going on in other countries. We have a core labour standards campaign that is attempting to educate trade union members about the issue of ILO core conventions and how they are being implemented in other countries. We attempt to increase the contact between British trade unionists and trade unionists in less-developed countries to make sure they have a better awareness of these issues, and I should say we receive a substantial amount of money—semi-substantial, it could be more—from the Department for International Development specifically to educate our trade union members about exactly these issues.

Q249 John Bercow: Is that evident in published form?

Mr Tudor: Yes indeed.

Q250 James Duddridge: How much?

Mr Tudor: It is in our accounts.

Q251 John Bercow: Forgive me, Mr Battle, I interrupted. I did not mean, is the fact of the receipt of public funding evident in published form. Mr Tudor, what I meant was, is the output of your work
using that money available for us to see? In other words, is it just discussions or do you produce written materials?

Mr Tudor: We produce written materials and all sorts of things which we can flood you with. Sorry, that was not meant as a threat!

John Bercow: If I may request a trickle rather than a flood, I would be very grateful.

Q252 Joan Ruddock: May I make it clear I was interested in the work of members in this country because I think one of my colleagues wants to talk about trade unions in the developing world.

Mr Schouwenburg: We aim to make our members very aware of the global position. One of the supermarkets we organise in is Asda and we see no contradiction between organising our members in Asda and organising trade union members, or helping to organise trade union members, in our case, in Latin America that supply us with bananas. We see no contradiction in that at all and, in fact, as part of the scheme that Owen has mentioned we participate in something called the “Union to Union Project” which is financed by a relatively small amount of money from DFID whereby we try and support how we see our colleagues in struggle in developing countries.

Q253 Joan Ruddock: Would this education of your workers here have any impact at all on the company for which they work?

Mr Tudor: One example that I immediately call to mind is not necessarily about suppliers in other countries, but it is the way in which British trade unions used the Ethical Trading Initiative to improve the terms and conditions of strawberry pickers in the Midlands. I do not think there is any necessary reason why this same model could not be applied to strawberry pickers in any other country. The way the union did it was that the union that was recruiting the strawberry pickers and attempting to get a better deal for them used its links with the supermarkets which it had through the Ethical Trading Initiative, and the fact that the union is involved is recognised by some of the major supermarkets, to say to the supermarkets, “You ought not to be buying from a supplier who is treating its workers so unfairly to provide goods which our members are then selling to the general public”. If that chain works—I accept that is a fairly small chain—one could certainly expand that to cover other examples and there may well be other examples I simply cannot call to mind.

Q254 Mr Davies: I might just say, in case anybody is anticipating the reverse, that I quite agree with the economics that have been put forward by the TUC this morning, that when labour productivity is rising falling producer prices might be quite consistent with stable, rising real wages. Could I ask a question to Mr Schouwenburg. I think we have agreed this morning, Mr Schouwenburg, that Fairtrade is a brand. The peculiarity of this brand is that it was created not by people who wanted to exploit it themselves but by people who wanted producers of developing countries to benefit from the added value. Do you think that purpose has been largely achieved? That is to say, do you think the distribution of the enhanced value created by that very successful brand has been reasonable as between distributors and retailers in the north and in the developed world and as between the producers in the south, or do you think the benefit has been disproportionately gained by distributors and retailers in the north?

Mr Schouwenburg: I think the benefits of producers are far more equitable than non-fair trade commodity products. Whether the—

Q255 Mr Davies: That is not quite the issue because here you created a new source of value, a brand that did not exist before, and the question is, how do you distribute that value as between these two categories?

Mr Schouwenburg: That is more of a technical question I think you are asking me, is it not?

Q256 Mr Davies: It seems to me a fundamental question. The object of the operation was to create value for producers of every country, was it not? It was an altruistic purpose, it was not people creating a brand as usually happens, the examples we had this morning, Coca-Cola or Harley-Davidson or something, in order to benefit their own shareholders, to invest in a brand and then they get greater value in the future, that is not the case here. This is an altruistic project, I understand. Fairtrade wanted to create a brand as a way of getting value for somebody else, for producers in developing countries. You created the brand, it has been very successful, well done. The question is whether you are satisfied at the distribution of the value created, that is my question. Are you satisfied or are you not? If you are not satisfied, the next question is what are you doing about it? If you are satisfied that terminates the argument.

Mr Schouwenburg: Personally, I am not satisfied, I would like to see more value go to the producers. Whether that is possible depends on the price that the retailers in this country, for example, are prepared to pay for those products. As we have seen, they are prepared to pay.

Q257 Mr Davies: That is not the problem. You created the brand and you see the consumers are prepared to pay the premium price that is benefiting the brand, just like people would be prepared to pay for my shirt at a higher price if it had a Versace label on it than they would pay for it as it stands. They are prepared to pay for the brand, you established that, it has been a success. I am talking to you about the distribution of that value. You just answered the first question, which is that you were not satisfied with the distribution of the value, you thought an insufficient portion of that value was being distributed to producers in the developing world. So my next question, that I already warned you was going to be my next question if you gave an answer, is what are you doing about it, Mr Schouwenburg?
Mr Schouwenburg: Unfortunately, we have not got complete power over world markets.

Q258 Mr Davies: You have got power over the Fairtrade Foundation which is creating this value. You are on the board, that is what I think we were told.

Mr Schouwenburg: I am the trade union representative on the board of the Fairtrade Foundation.

Q259 Mr Davies: The Fairtrade Foundation has created all this value for a purpose that has not been achieved, it created this value for the benefit of developing producers. What is the Foundation now doing about this?

Mr Schouwenburg: I disagree. Although it occupies a small niche in world trade, I think it has been of value to a great many producers around the world who otherwise would not have been able to eke out a sustainable living on the products they provide for the reasons we heard earlier.

Q260 Mr Davies: You just agreed with me, that the benefit which has been generated for producers in that work is insufficient, you said you are not satisfied with it.

Mr Schouwenburg: I did not say it was insufficient, I said I was not satisfied. Those are two different things.

Q261 Mr Davies: I see. Would you explain the difference?

Mr Schouwenburg: I would like to see more of it is what I meant. We can see that Fairtrade is expanding exponentially, but of course I would always like to see more going to the producers as a proportion of the value.

Q262 Mr Davies: So what are you doing about it?

Mr Schouwenburg: As a board, as an organisation, we are expanding Fairtrade and we also—

Q263 Mr Davies: Why do you think expanding Fairtrade will change the distribution of the enhanced value?

Mr Schouwenburg: Expansion alone will not change that distribution, but part of what we do, as we see it, is to try and educate consumers to demand these products and what has happened in the recent development—

Q264 Mr Davies: Leave off creating the value, we have given you that, you have created the value, we are talking about the distribution of the value created.

Mr Schouwenburg: What is up to us is to persuade the retailers to give more of that value to the producers, which is a different argument.

Q265 Mr Davies: How are you doing that, Mr Schouwenburg?

Mr Schouwenburg: We do that in the same way as we have achieved many things in the fair trade movement, by using consumer pressure to make the retailers change their ways and give more value to the producers.

Q266 Mr Davies: You are telling the consumers, “You are giving all this money to Starbucks or Marks & Spencer’s via Fairtrade value, actually not enough of that value goes back to the primary producers”, so what is the consumer supposed to do about it? Stop buying the Fairtrade product or continue to buy it and continue to perpetuate the existing, in your own judgment, unsatisfactory distribution of value?

Mr Schouwenburg: It may not be perfectly satisfactory, I think you would expect me to say that. However, it is better Fairtrade as it is now than no fair trade at all and there is always room for improvement.

Q267 Mr Davies: I think I have drawn the conclusion from this conversation, Mr Schouwenburg, that you are not satisfied with the distribution of the additional value created, and you and your colleagues at the Foundation have not the faintest idea what to do about it.

Mr Schouwenburg: I think you would be mistaken.

Mr Davies: Why do you not tell us what you are going to do about it?

Q268 John Battle: James, we might press a little bit on what is happening at the producing end of the distribution.

Mr Tudor: Sorry, Mr Battle, I am not sure why Mr Davies has presued quite that line of questioning because the purpose of the Fairtrade Foundation is not to alter the proportion of the value of the product that is going to the producer, it is to raise the amount of money that is going to the producer, which is what it has in fact done in the areas where it is doing it. There is another question, which I am not sure is quite the purpose of the Fairtrade Foundation, to then ask how much extra is the retailer charging for the fact that you are getting more money to the producer, so you are comparing a sum with a proportion and I do not think that is how the Fairtrade Foundation works.

Q269 Mr Davies: I raised this issue of distribution of the value, it seemed to be a very pertinent question and I do not apologise to anybody in any way that I raised the issue. I did not get a very satisfactory answer, but I hope that as a result of this exchange the Fairtrade Foundation will think about that issue. It seems to me that there is an issue of how you have created the value of the brand in the first place, that has been very successfully done. There is an issue as to how you continue on that course and create even more value for the brand and I trust that will happen, but there is also an issue about how that additional value is distributed between the northern world and southern world, the primary producers and the distributors and retailers in the north. That seems to me to be an issue that the Foundation has
not properly addressed; I think that they will and perhaps when they come back, we will invite them back subsequently and there will be an answer to that question which, I think you will agree, is an interesting question to ask.

Mr Tudor: I do agree with that, but I think it is perfectly appropriate for the Fairtrade Foundation to concentrate first and foremost on making sure the producers get an increased return from their labour and that it is more sensible to spread that first before talking about the fairly small number of people who get that increased amount and increasing the proportion they get of the final sum. I think in terms of priorities, it seems sensible to me for the fair trade movement to be concentrating on spreading the number of people who get more money before you address the really rather wider question of what proportion.

Mr Davies: One final observation, if I may. Mr Tudor, in answer to some of my questions Mr Schouwenburg said the answer might be to create more consumer pressure and I challenged him on that answer. Nevertheless, there is an implied sense there that if consumers in the west, in the north, the EU and United States, feel that fair trade is not really very effective in creating additional value for primary producers or is so much more effective in creating additional value for the distributors and retailers in the north than it is for producers in the south they will feel less motivated to pay those premium prices? While they pay another $10 a pound for coffee, the example we had this morning, if only ten cents of it goes to enhanced revenue to the Ethiopian coffee producer all the rest, and $9.90 goes for enhanced profits for Starbucks, they will say, “Well, I shan’t bother to pay my fair trade premium for enhanced profits for Starbucks, they will say, “Well, I shan’t bother to pay my fair trade premium for enhanced profits for Starbucks”.

Mr Schouwenburg: As an individual trade union, we do not get any money at all directly from DFID, that goes to an NGO, which in this case is Banana Link, that sets up the Union-to-Union Programme.

Q271 James Duddridge: Is that speaking for the GMB or is that all the monies either directed via the TUC or received directly or are individual unions not receiving money?

Mr Tudor: Some individual unions are receiving Civil Society Challenge Fund money. I think it is only Union at the moment that has an ongoing project funded under the CSCF. I think the General Federation of Trade Unions has a development awareness fund budget at the moment. If you need to know about this, I am afraid I am going to have to supply the information separately.

Q272 James Duddridge: That would be great. I am interested in the overall figure rather than just the £250,000 per annum via the TUC. Perhaps taking a step back then to a bit of a longer-term explanation of the relationship through the trade unions and developing countries—could you talk about some of the outcomes. You suggested you were going to go back to Mr Bercow in relation to some of details, but perhaps you could give us a taster of what lessons you have already learned and problems you have had with the relationship, and how that might change the interaction between the trade unions in the United Kingdom and trade unions globally going forward?

Mr Tudor: The TUC is a founder member of—I am wearing the badge—the International Trade Union Confederation, which brings together about 300 national trade union centres in about 150 countries—you will spot that there are some countries, unlike the UK, which have more than one—with a combined membership of about 165 million around the world, 45% of which is outside Europe, as defined under ILO definitions, ie stretching to Vladivostok, and 45% in the Americas, Africa and Asia. We have links through that international confederation with sister organisations, the national centres in each of the other countries. We have a range of bilateral relationships which we have established over many years, frequently but certainly not universally with associations through the Commonwealth, for instance, a lot of our links are with other trade unions in Commonwealth countries, but also bilateral relationships with other unions for various different reasons.
Q273 James Duddridge: If I may, I am hoping to get some feedback specifically on the International Development Learning Fund, which I had heard something of, and, secondly, the Civil Society Challenge Fund, which I was unaware of before you mentioned it.

Mr Tudor: Those funds pay for some of our direct relationships both between the TUC in national centres in those developing countries and individual trade unions and their sister organisations in those countries. Let me give you one concrete example, for instance. We have just concluded a three-year project under the Civil Society Challenge Fund with the Nigeria Labour Congress about the empowerment of women in the Nigerian trade union movement. It involved DFID giving us the funding to pass on to the Nigeria Labour Congress to run a project employing one project worker and one administrative worker to produce training courses, run training events, empowerment processes, campaigns and information exercises to improve the role of women in the Nigerian trade union movement so they would have more ability to ensure that what the NLC was doing to bargain with government and employers was going to reflect more adequately the position of women in Nigerian society. That is one of the examples of this.

Q274 John Bercow: I am interested in that. Are you motivated mainly by a desire to increase the number of female office-holders in Nigerian trade unions or by a desire to attract more female members of those unions or is it a judicious combination of the two?

Mr Tudor: Neither of those, those are both means to the end. The end we are interested in is improving the position of working women in Nigeria and we think that both of those steps are likely to lead to that outcome. We think increasing the number of women who are members of trade unions is more likely to make those trade unions reflect the legitimate interests of Nigerian women workers and it is more likely that the number of women in those unions will transmit itself into changes in union policy if there are more women in charge.

Q275 John Bercow: On a social scale the shape of the labour market is there, perhaps as a result of the United Kingdom. It might be a reasonable supposition that the interests of part-time workers are disadvantaged if you have not got a strong female participation because the proportion of people in part-time work who are women tend to be rather larger than apply to men.

Mr Tudor: That would be fair in both countries actually.

Q276 John Bercow: Indeed, as it is of course here. Is it the case that you chose Nigeria specifically because you regard it as the worst case scenario at present or is it because of some sort of historical link?

Mr Tudor: No. We tend to try and intervene where we think that the intervention will have most effect rather than where we think people are in the worst possible situation. There are trade unions around the world which are in really grisy situations, like Zimbabwe, for instance, or Colombia where we engage, to be honest, in the rather more directly traditional solidarity activities. There are trade union movements, the Nigeria Labour Congress I think is an outstanding case in point, where the trade union movement is already an influential one in a country which is itself influential certainly in the region if not in the entire continent. We think that intervening in those sorts of environments is most likely to produce the best gains for what in this case is taxpayers' money, and in other cases our members' money, to make sure that we are working with the grain rather than attempting to assist the least capable. This is basic trade unionism in a sense. If some of our people did not have power there would not be any power to help the powerless, so we try and make sure the countries we pick as our priorities for doing this work are ones which have viable trade union movements which can spend the money sensibly and to best effect in terms of outcomes.

John Battle: Could I thank you both very much again for your contributions to our inquiry.

Witnesses: Mr Paul Chandler, Chief Executive and Mr Michael Gidney, Policy Director, Traidcraft, gave evidence.

Q277 John Battle: A word of welcome and, in fact, if I could ask you a general opening question to give you a little bit of space to say who you are and your perspective. The fair trade movement has been going 15 years now and if you would like to give us your impressions briefly of its strengths and where you see there is a need for progress, perhaps picking up on some of the points that Mr Quentin Davies has put in as well.

Mr Chandler: Traidcraft has been going for much more than 15 years, Traidcraft has been almost 30 years in existence so fair trade, as a concept, does go back further than the Fairtrade certification mark. We think it is very exciting, though, to have seen the rapid growth of recent years and we have always welcomed and advocated the involvement of mainstream companies. We do recognise that is now posing both opportunities and significant challenges to the future of Fairtrade, how it works and, in particular, how far we can ensure that it keeps a tight focus on development and really reaching the poorer, more marginalised workers not simply becoming a more generalised ethical standard which would be more about doing no harm than about really taking forward development to its best effect. There are a number of areas we all need to address and some of those relate very much to the question that Mr Davies posed. We do need to make sure that the systems and standards which operate within Fairtrade are made as robust as possible so they are properly monitoring and controlling all the players in Fairtrade but in doing so they do make sure that
the focus on poverty is maintained and the dedicated, more mission-driven organisations like Traidcraft are able to innovate, pioneer and act as watchers on the overall development of the movement. We also need to find ways of how do we really maximise the impact of the private sector and make sure that in supply chains as much benefit as possible does flow back to producers. On the very specific question of are producers getting a fair amount of the benefits of Fairtrade, I think there are several levels on which I would like to answer that question. First of all, we do ask our producers through our social accounting processes, through independent research, “Do you feel what you are getting is a fair payment for what you are doing and is better than you see others getting?” Universally, they are saying, “Yes, we think we are getting fair prices, we are being dealt with fairly and our livelihoods are much improved as a result of that”. We sense that there is, however, a need for maybe more regular reviews of some of the standards, such as the minimum prices and premium levels for particular commodities within the Fairtrade certification system, which at the moment, frankly, the system does not have the resources to carry out as frequently and methodically as we would like. One of my senior directors sits on the standards body of the International Fairtrade Labelling Organisations and one of the areas we want to encourage is regular reviews to make sure as time goes on the fairness is still definitely there. The second issue, which I think is very relevant, is when Traidcraft and other small organisations created Fairtrade products and started building up consumer awareness of fair trade, as small companies, we did not benefit from all the economies of scale of some of the big new entrants into fair trade. The additional price premium that the consumer was paying for goods, some of that was because the producer was getting more money; some of it was because Traidcraft was a very small organisation and was not getting all of the supply chain economies that others could. We were just about breaking even or making losses, so we certainly were not getting undue benefit compared with the producers. It is not and never has been true that all the additional payment the consumer is making flows through to producers because of our scale. As we now find mainstream companies coming in, I think we are beginning to see market forces ensuring that the additional extra cost of our being small is not just being taken as extra profit by the new players. I think when they first came in there was a lot criticism, “Are Tesco’s and others really exploiting the consumer on bananas or coffee price”, or whatever, but we are now seeing own label Fairtrade product prices beginning to come down. That poses some issues for us as there are still small people competing against that, but that in itself is creating some pressure. What we think is going to be absolutely essential in making this work, and something we have been quite active on, is promoting stronger requirements on big companies to report on their supply chains and exactly what is happening within them. We have been a leading advocate of social accounting which is one way of doing that, but during the recent company law review that was going on last year we were one of the very active agencies lobbying to try and make sure that better reporting on supply chains came in. If companies become more transparent about who is getting what, then there will be pressure from the media, people like ourselves and people like yourselves in government to make sure those are being managed and managed properly and that undue profit is not being taken out of the system. I do not know if that is a sufficient answer, but that would be my response and what we are doing.

**Mr Davies:** I am grateful for that.

**Q278 Ann McKechnie:** I wonder, given the rapid expansion of fair trade over the last few years, what do you think the role of donors, such as the UK Government, should be in engaging with fair trade? There have been some arguments presented to us over the last few weeks that it should be helping people to develop new products to put onto the market or should it be a general consumer awareness and civic education programme? What do you, as one of the Fairtrade retailers, think should be the emphasis?

**Mr Chandler:** I think there is a very valuable contribution for UK Government, DFID, to support the further development of fair trade. It has made some contributions in the past, I sense it is making less direct contributions at present, perhaps feeling “well, the market is going to deal with this anyway”. Indeed, we must make sure that where big companies are getting involved they are putting proper resources into developing fair trade and producing new products not simply relying on external subsidy. However, there are areas in which you cannot make a good commercial business case always for investing in some of the supply chain development that is needed. I think there are huge areas for development, for example taking fair trade beyond the food sector, where it has been hugely successful, into more non-food products. Traidcraft started as a crafts-importing organisation, there is a little bit of movement now with Fairtrade cotton fibre being certified, but we have got to look much more at other supply chains. That is quite a long-term investment process in developing the product, making them robust and creating consumer awareness of that and I do not think we are going to find that coming out of the commercial sector or what the small dedicated Fairtrade organisations are able to fund. I think there is some help potentially to invest in scaling up some of the producer groups to be able to cope with the huge market growth we have got now, particularly to make sure in the rapid expansion of the market what we do not see are simply existing reasonably well-treated workers on estates or plantations being given a few marginal extra benefits to qualify for full Fairtrade status and that swallows up the fair trade opportunity. What I am keen to see, as a mission-driven organisation, is that we make sure small producers who have really got much further to travel before they get to a standard level of benefits have equal access into the
market but to do that is quite challenging; it is much easier for a big company to buy from a bigger, better-organised supply group. We need organisations like Traidcraft and Café Direct and others to work alongside some of the smaller producer groups to help get them ready for the market, but we are all finding our margins hugely squeezed at the moment by this competitive pressure. I think there is a role for government to find ways of using the expertise of the dedicated Fairtrade organisations to really make sure that small producers get a fair opportunity here because that small producer poverty-focus of fair trade is to me one of the absolutely fundamental aspects of what the movement has been trying to create.

Q279 Ann McKechin: Does that then mirror what the relationship should be between the Government’s approach to mainstream trade and fair trade because, for example, they may be saying with products like bananas or coffee we are now getting mainstream producers coming in on a massive industrial scale into those markets? Are you trying to say, perhaps, that they should be looking at different products to try and replicate that similar pattern? I know there is a distinction between small producers and industrial producers but sometimes if you are a worker on an industrial site, are you much better or worse off than someone who is an independent small producer and why do we make that distinction?

Mr Chandler: We agree entirely that we want to reach the needs of poor workers wherever they are and whatever the structures they are within. For those involved in larger structures I think there is more onus on the companies to treat those workers fairly and in accordance with ILO conventions and all the rest of it, anyway, without necessarily getting the added fair trade dimensions. Where that is not the case then certainly we are keen and we have always advocated that we need to develop standards for workers on plantations and estates as well. Commercial fair trade should be able to make good progress in those areas; where additional government support would be particularly valuable is in helping the smaller producers who otherwise would be further marginalised through these processes, so making sure that development edge is maintained to me is important, but I am not trying in any way to denigrate the importance fair trade is bringing to other areas.

Q280 Ann McKechin: I appreciate it is much more difficult with small producers because by their nature they are individual, but it seems to me the way we should approach it is by trying to persuade small producers to go into things like co-operatives so they can organise because when you have the ability to organise labour you have the much greater ability to then increase your take of the total price?

Mr Chandler: That is one of the things we do around the world, get farmers to come together to work collectively. For example, in India one of our producer groups is linked to an organisation called Agrocel, which is a range of products, they were the first Fairtrade certified cotton producer. One of the things we were doing was trying to bring cotton farmers within a particular region of India together so that in an organised way they would be able to make more impact on the market. In 2001 we started this project with 50 farmers and there are now 2,000 farmers engaged in this particular enterprise who are now supplying Marks & Spencer’s with quite a lot of their Fairtrade cotton as well as supplying Traidcraft. Traidcraft, though, is necessary during the conversion period to be a trader to give them the ability to make the transition towards fair trade and now we are working with them to diversify beyond cotton into other crops as well so they can get a more balanced range of local markets and international markets and not be dependent simply on cotton as a commodity. Bringing the farmers together has enabled much better inputs, and has enabled them to learn from each other and develop new skills, so I entirely agree with you.

Q281 Ann McKechin: So that is where you think the UK Government should probably be spending a bit more of its time?

Mr Chandler: I think it is one of the areas where the UK Government could help; my colleague might have other areas too.

Mr Gidney: I think we need a much clearer overarching strategy from DFID about what kind of trade it wants to support and why. Fair trade is a part of that, it is not the exclusive priority, but we do not get any sense of a maturing understanding of strategy coming from DFID at the moment; in fact, we are concerned that DFID is rolling back on some of its earlier commitments. When you think back to the earlier White Paper commitments about a strategy for harnessing the private sector for development and sharing the benefits of globalisation with everybody, fair trade, again, was a part of that but the ambitions were much bigger. In the last few years it feels that DFID is thinking differently. Perhaps, for example, DFID thinks, “Fairtrade banana sales are set to take off now, we can step back”? Maybe it is that engaged, but our line would be it is far too soon for DFID to step back yet. We are just now seeing the benefits of economies of scale in certain product categories, a very small number, bananas and coffee, for example, where we have large retailers going for 100% switches, like Sainsbury’s with bananas or M&S with coffee and tea, but that is really new. The job of investing in developing producers and standards, and bringing the goods to market consistently in terms of quality, deliverability and price is hugely long-term and it is troubling that there is this feeling of rolling back.

Q282 Ann McKechin: Do you feel basically there is a split between the private sector development, which DFID has indicated is one of their new priorities in the White Paper, and on the other hand their support for a fair trade initiative in the Ethical Trading Initiative? Do you think there needs to be much more of a joined-up approach between the two?
Mr Gidney: A joined-up would be a very important place to start, but it is also about having a sense of what the planned returns on DFID’s investment are and what the results are expected to be. It feels as though DFID’s support for fair trade—whether by a dedicated fair trade company like Traidcraft or a certification scheme like the Fairtrade Foundation—or support for some of the ethical or corporate social responsibility schemes is project-based and ad hoc. We are losing something by not capitalising on the impacts and the benefits from these different initiatives.

Q283 John Barrett: If I could turn to the power of the consumer and how do they make an impact and find out as much they need to know. We have heard about increased information on labelling for nutritional value and then all the major retailers, Tesco’s and others, getting into the market and not appreciating that consumers are spending billions of pounds in their stores. How do we make sure that the consumers know exactly what it is they are buying and find out as much as possible? There are lots of pros and cons to different standards and lots of voluntary standards self-imposed. As you mentioned earlier, cotton, it can be fairly traded cotton, but not necessarily a fairly traded T-shirt if the cotton is then being turned into a T-shirt in a sweat factory somewhere. What is the best way of informing consumers without over-confusing the issue? Is labelling the answer or are there other alternatives, because the retailers are certainly in on the game but how the consumers sort out the good from the bad is becoming more and more difficult. You mentioned one supermarket going for 100% switch to Fairtrade bananas, one might assume when you go into that store, lots of other products you are then buying might also be under the same good ethical standard, but the opposite may be the case. What is your thought on how to help consumer power make the right decisions?

Mr Gidney: It is all about transparency and accountability. The Government does have a role in empowering the consumers to ask the right questions of businesses. Traidcraft, as a social enterprise, is a mission-driven business, a pioneer of social accounting. We publish on our website not only details certainly of our economic performance. That is an important step but, of course, companies can ensure that facts are presented in a certain way. The more we can encourage consumers to understand they can ask questions about transparency and accountability the better we will be at seeing through corporate “spin”. The Fairtrade certification mark is extremely important in bringing companies which have no specialism in this area at all into the game, but, as Bert Schouwenburg was saying, it is a journey. None of us is satisfied with where we have got to, we all want to see more and more progress. It does not mean that we are unhappy with what has been achieved so far—I think the growth has been phenomenal—but there is much more to be done, because there are not nearly enough Fairtrade products yet.

Mr Chandler: If I could add to that. I think the fair trade label is the best, simplest form of consumer communication on this, and you cannot expect the average consumer to delve into websites, particularly going along the shelves, and the fair trade mark has been very successful in being a very clear, simple badge. What we need to do is make sure that the Fairtrade Foundation is resourced and empowered to really make that mark work but also we do need more consumer awareness education programmes to help consumers really understand what it stands for. There are very simplistic, understandable assumptions that fair trade is all about the fair price, actually if you talk to our producers, the fair price is certainly very important but there is a whole range of other benefits of engaging in fair trade which are of equal or even, in some cases, greater importance to them. Sometimes that distinction gets lost. When I have heard suggestions about putting labelling on products to say, “This is the percentage of the product that will go to a producer” or whatever, I think there are very significant, practical difficulties in that, particularly as packaging does not change very often.

Mr Gidney: A joined-up would be a very important place to start, but it is also about having a sense of what the planned returns on DFID’s investment are and what the results are expected to be. It feels as though DFID’s support for fair trade—whether by a dedicated fair trade company like Traidcraft or a certification scheme like the Fairtrade Foundation—or support for some of the ethical or corporate social responsibility schemes is project-based and ad hoc. We are losing something by not capitalising on the impacts and the benefits from these different initiatives.

Q284 Ann McKechnie: This is the Food Standards Agency’s fight with the supermarkets at the moment because I think they reckon that consumers take three seconds to make their choice as it comes off the shelf.

Mr Chandler: We need to make sure the Fairtrade mark is well understood, that people really understand what it stands for. I would like to think that consumers could also begin to recognise some of the brands as well as the Fairtrade label, because we believe Traidcraft goes several extra miles beyond the excellent standards of the Fairtrade mark and there are other things we do that you would not expect Tesco’s or even Marks & Spencer to be doing in their fair trade activities. We have got to build our brands, we need the Fairtrade mark to be properly understood so they are not misled and I think there is a danger, the consumers think the whole Fairtrade premium is going straight into the producer’s pocket, and we know that is not the case, then we have got an issue. I think it is very important this is addressed, but we need resources to make this
communication happen. Again that is an area in which DFID’s Development Awareness Fund could be used for in part.

John Battle: There are some suggestions there that will help to firm up our report on how we look at presenting a summary of the issues. You were last but not least this morning. Could I thank you for your contribution to our deliberations and just say that some of the issues that were entered into here wrap us into the World Trade Organisation as well, about which we have previously done a report. I am sure we will be returning to those as well, so the inter-meshing of the issues works fine as well. We may see each other again. Thank you to everyone.
Tuesday 17 April 2007

Members present:
Malcolm Bruce, in the Chair

John Battle
Hugh Bayley
John Bercow
Richard Burden
Mr Quentin Davies

James Dudderidge
Ann McKechin
Joan Ruddock
Mr Marsha Singh

Witnesses: Mr Gareth Thomas MP, Parliamentary Under-Secretary of State, Department for International Development (DFID) Mr Owen Barder, Director, Global Development Effectiveness Division, Department for International Development (DFID), Ms Laura Kelly, Senior Agriculture and Trade Adviser, International Trade Department, Global Development Effectiveness Division, Department for International Development (DFID) and Ms Amanda Brooks, Director, Trade Negotiations and Development, Europe and World Trade Department, Department for Trade and Industry (DTI), gave evidence.

Q285 Chairman: Minister, good morning, we are a little early but thank you for being available. We allowed ourselves time to debate a report, but we are such a harmonious committee that it took rather less time than we had provided. Thank you for coming; perhaps you would care to formally introduce your team.

Mr Thomas: For the record Laura Kelly and Owen Barder from DFID and Amanda Brooks is from the DTI, Europe and World Trade Department.

Q286 Chairman: Thank you. Obviously, as you will appreciate, you are giving us the final evidence on the inquiry we have been doing into fair trade. It would be fair to say that the Committee has been impressed by the speed and scale by which fair trade has developed from being rather more than a niche market to a quite significant component of the retail market. Obviously, there is still a huge way to go, but nevertheless it is clear that it has moved and is continuing to move at a rapid rate. In that sphere, can you say whether the Government—it does cut across departments but obviously your department is central to it—has a unified strategy in supporting fair trade; how do you view fair trade; how does the Government respond and what is the strategy within the Government; is there a proactive strategy to say fair trade; is there a role in helping some producers get access to international markets and certainly to help some poor people in poor countries to have the ability to trade and sell goods. What are we doing then to try and expand the range of fair trade goods that there are or the fair trade initiatives that there are? We have given some £8.5 million in support of a variety of different fair trade schemes, be they for fair trade certification schemes or be they for initiatives to try and mainstream fair and ethical standards, sustainable standards, across the supply chain or to raise awareness about trading issues since 1997. We are just beginning a conversation with perhaps the most well-known of the fair trade market, the Fairtrade Foundation, about what we do next time—if indeed we do do anything next time and I am sure we will do—with the Fairtrade Foundation.

Q287 Chairman: That is fine and we have, obviously, a breakdown of how that money has been allocated, but it does not explain what is the strategic thinking behind it—in other words has the Department responded to various initiatives that have been presented to it and said yes, that is fine, we will support it or, allowing for what you have said about a fair trade deal which this Committee has made clear the Doha Round should have delivered and should be delivered, which is a much bigger outcome, what is the strategy within the Department? Is there a proactive strategy to say fair trade has a role to play in helping producers get a fairer price and get better social provision and possibly improve the quality which strengthens their place in the market? Is there a strategy and how does that relate to the DTI; who actually leads on this? We have taken evidence, mostly from retailers, who probably look to the DTI as their normal lead department so what is the interaction between the DTI and DFID and what is the strategy; is it actually to have any objective about increasing the fair trade share of overall trade?

Mr Thomas: Our strategy, for want of a better word, has been to support the various initiatives that have come forward, and there are many different
initiatives that have come forward in this area. The Fairtrade label is perhaps the most well-known, but there is a variety of others and there is a variety of individual fair trade initiatives by different supermarket chains, for example. We have responded to various requests as they have come forward and we have specifically recognised that we need to do more to raise awareness across supply chains about fair, ethical and sustainable trade; we are working specifically with the food industry to scope out a challenge fund to help in that purpose. We provide £3 million a year to the Ethical Trading Initiative, again to help with the mainstreaming of improved standards, be they labour standards or fair trade standards et cetera across the supply chains as well.

Q288 Chairman: The Ethical Trading Initiative as I understand it is about labour standards rather than trade standards but, if I may say so, Minister, there is nothing untoward about what you are saying other than it sounds very reactive rather than proactive. Yes, you have responded to various initiatives, but we have taken evidence obviously from retailers who seem to have a very strategic view of their place in the market and the Fairtrade Foundation clearly has a strategy and is delivering on it. I am left wondering whether or not the Department, in conjunction with the DTI, should be doing more. Perhaps you have been taken by surprise and perhaps understandably you have been taken by surprise that fair trade has taken off more than people expected, but do you not think there should be a more proactive role?

Mr Thomas: I do not think we have been taken by surprise, it is something we welcome, and our attitude has been to try to encourage a thousand flowers to bloom, to coin a phrase, and we have seen a whole series of initiatives being developed by different players, be they the Fairtrade Foundation, be they the Rainforest Alliance, be they individual initiatives by particular sectors like the coffee sector, for example. I do not think it is for us to try to discriminate between individual initiatives, we want those initiatives to develop and succeed and to make progress and if there are other initiatives by other sectors or by other bits of industry or by other NGOs coming forward to develop their own initiatives, then we would want to encourage on that. There is more that we can do as a government; I am just about to write around to other government departments to encourage them to have a look at what else they can do in terms of contracting and using fair trade and fair trade goods. As I say, a series of suggestions has been put to us by the Fairtrade Foundation and we are just beginning a conversation with them, so I would accept that there is more than we could do, but if by strategy you mean we should pick particular organisations to back then I do not think we should do that.

Q289 Chairman: No, I understand that and I can understand why you would not want to do that, but you could promote a kite-mark kind of approach that says we would welcome independent assessment of fair trade standards. One of the problems we have is that supermarkets, retailers and others are all saying we are promoting fair trade; the Fairtrade Foundation has been very successful in a sense almost at monopolising the symbol of fair trade and they have got a lot of credit for that, but if Marks & Spencer or whatever says there are things we will do which we think are fair trade but do not meet the logo, what they would want is some independent assessment that that is the case. Is that not something the Department could encourage?

Mr Thomas: One of the things Defra has done is to try and give some guidance to shoppers about green labels and the differences between the different green labels that are around; there is perhaps scope for us to look at doing something like that. The difficulty with a kite-mark as such is that there is a danger that you are starting to pick between particular initiatives and that kite-mark then becomes the lowest common denominator and it might discourage initiatives in particular sectors. Up to now we have been reluctant to go down the kite-mark route or the regulation route but, as I say, there is more we could do to explain the different types and the differences between the different types of certification schemes. I would hesitate around a kite-mark, although on the basis of the evidence you have had before you, Mr Bruce, if that is a recommendation that emerges from the Committee then I will obviously look at it very seriously again.

Q290 John Battle: Can I ask you about the integration of the Department’s approach to fair trade and pro-poverty policies? I just want to explore whether there is not a kind of view that the Department has put out reports on trade, if trade goes okay, we increase trade, we understand the need to increase trade and trade is a much greater factor than aid in development, but are we relying on the old trickle-down theories that if trade in general increases then it will reach the poor, or how do you reconcile a very strong pro-poor approach and good trade policies?

Mr Thomas: As I say, there are a number of different elements to it but we do have to try and get a fairer international trading system so that trade in general can increase, but then you have to make sure that those expanded markets can work better for both the poorest nations themselves but also the poorest people within those nations. One of the things that we have done to try and make sure that the very poorest people can become producers and can trade, is to try and increase the access of people to finance. We fund a whole variety of micro-finance initiatives which obviously help people to get very small loans so that they can buy the goods, the assets, that they need to start trading in the first place, and together with the Treasury we are hosting at the request of the Commonwealth finance ministers a meeting in June to look at best practice on access to finance and what else we can do. That is one very tangible way in which we try and, if you like, build the ability of the very poorest people in the developing country to have access to those greater markets.
Q291 John Battle: That is encouraging, particularly the link to the Treasury, but that is on micro-finance. Can you encourage me a bit more and say that there are meetings with the Treasury and the DTI on trade policy in general at the macro level, not just in terms of sorting out the WTO—we know there are issues there—but to ensure that even things such as pricing structures, undercutting prices, sorting out which markets are exploited and which are not—and I use that word deliberately. Is there any conversation between DFID, the DTI and the Treasury about the macroeconomic structure, suggesting that there should be some intervention—if I dare use that word—to ensure fairer trading all round and, more particularly, to ensure that the poor and the poorest communities get a greater look in?

Mr Thomas: There is considerable discussion across Government departments about how we work together on international trade and each of us in different ways will commission and fund research into particular aspects of international trade negotiations so that we can support our position of helping developing countries. We work very closely with the DTI, with Defra, with FCO and with the Treasury on planning our position and planning the different elements of our work which each government department will do.

Q292 Hugh Bayley: My question is to the DTI: what responsibility does the DTI think that the private sector, both corporate suppliers and retailers, has to ensure that their sourcing policies when sourcing from developing countries have a pro-poor dimension. Do they have any responsibilities or is it just a matter of commercial practice?

Ms Brooks: We work very closely with DFID to try and ensure that we have a consistent Government line across the piece on these issues, but we do have a team within the DTI who focus on the retail sector specifically and we also have a team that works more widely on corporate social responsibility issues, not just about how they interact with developing countries but also domestically too. We work very closely with these teams; I see my own role as a link between the DFID work in this area and others working in the DTI to ensure that these kinds of practices are encouraged with large corporates.

Q293 Hugh Bayley: Thank you. If your corporate social responsibility team were sitting down with, shall we say, a major supermarket chain and talking about the sourcing of some product or other, what advice would the Government give about the need for them to take account of pro-poor development in their sourcing?

Ms Brooks: It would be advice along the lines of encouragement to consider standards and the various initiatives available in this area and to consider whether they are applicable in their own commercial environment. I have to say, although I have not been part of the corporate social responsibility team myself, I am not sure to what extent companies really discuss detailed sourcing decisions with us, but I would say that we would talk in general terms around encouragement to make contact with key organisations such as the Fairtrade Foundation on this kind of issue.

Mr Thomas: If I could just come in, one of the areas where there is overlap and where there is joint work between DTI and DFID is on engagement with the corporate sector. I gave the specific example of how we are working with the food industry as a result of meetings that the Secretary of State had with the major players within the food industry on looking at how we could use a small amount of government funding to catalyse greater use of fair and ethical standards across the supply chains of the food industry. We have not yet launched that, we are still scoping out what that challenge fund will look like, but that is one of the ways in which we work closely with the DTI to engage with the domestic industry here.

Q294 Hugh Bayley: If your officials or colleagues in the DTI were meeting one of the major retailers and they said “But why should we do this?” what would the Government’s answer be?

Mr Thomas: We would point to the obvious imbalance in the international trading system and the way in which we need trade to help to work for the benefit of poor people; equally, we are not going to get involved in the individual commercial decisions that each business will have to make. What we do want to do is try and catalyse a number of key businesses, be it through the Ethical Trade Initiative or through this food industry challenge fund that we are in the process of setting up in order to think more deeply about how they can source products in a fair and ethical way and how in those ways they can raise the standards and the incomes of poor people in developing countries.

Ms Brooks: If I can add to that, the other thing we would do is also point to the interest of UK consumers in this, the growing visibility of the FAIRTRADE mark to them and their growing demand to buy products that are fair trade sourced. We would therefore encourage them to think of it from that perspective too, not just from the perspective of the developing countries per se.

Q295 Chairman: If you are a bit cynical though you can take the view that the Fairtrade Foundation has been very successful in creating a brand that consumers want to buy and as long as that is the case the supermarkets are interested because it is profitable and it actually increases their share, it is not because they are deeply caring about the poor. I am not saying they are not, but I am not sure how caring they would be if the profit was not there.

Mr Thomas: There must be an element of truth in that but if the Fairtrade Foundation or other initiatives are catalysing a change in practice by business that is something we should laud. There is some indication that at least in some sectors—and I would not want to overstate this—Fair trade goods are being sold at the same price as other goods, which is clearly encouraging too. As I say, I do not want to overstate that, but there have been some encouraging statements.
Q296 John Bercow: I note, Minister, your use on several occasions in the last few minutes of the term “catalysing” and I appreciate that one might juxtapose catalysing against imposing or regulating. To a considerable extent for my own part I must say I am quite sympathetic to the rather cautious approach that you are taking because there is frequently an all too enthusiastic rush to regulate where it may not necessarily be the best thing to do. That said, I do have an overall impression that in terms of, for example, the approach to supply chain management—which is a very important question which could have real ramifications for the world’s poor—there is not a particularly clear or specific view emanating from DFID, and I also have a sense that you as a Department do fund rather ad hoc and on a project basis fair trade and DTI initiatives but you do not perhaps do a lot more than that. Can I just put it to you that there would be something to be said for you taking the lead as a department in facilitating, on a fairly formal and systemic basis, a greater exchange of information about, and lessons to be learnt from, fair trade and ETI schemes with a view not perhaps to imposing some sort of rule or creating some sort of official standard, but simply maximising the information available in the marketplace so that we know what is good and in particular we can judge for ourselves what is good for whom.

Mr Thomas: I do not agree with your opening premise, but I do agree with where you have ended up if you like. There is more that we can do and, as I said, I am quite attracted by the way in which Defra have sought to explain and offer more information to consumers about the variety of different green labels that are out in the market and there is certainly something that we can do there. On your opening point about suggesting that there is not significant engagement with the private sector, there is growing engagement with the private sector. The work that we are doing with the food industry is an indication of progress. We work through the Ethical Trading Initiative with a variety of companies, with NGOs and trade unions who want to work together in this sector and then our individual country offices will support, through private sector development work, one or two other initiatives in different ways. I accept that there is more we can do, but I think we have stepped up our engagement in this area.

Q297 John Bercow: Could I just, as a supplementary, Chairman, ask either you, Minister, or perhaps Amanda Brooks whether you feel there might be a role within Government for trying to hold to account, or even now and again to take to task, commercial operators who issue what to all intents and purposes are really misleading advertisements for their own wares in terms of fair trade? It is in the nature of things that any company will make its best commercial boast and if it thinks people are attracted by fair trade then it will put the best spin on it, but the public have got to be pretty discerning, have they not, because quite a lot of the time we are finding that what companies say about their trading policies on fair trade, as in a number of other respects—additives and all the rest of it—does not bear very close scrutiny. Is there not a role for the Secretary of State for the DTI—I with my beady eye looking at Ms Brooks—to get involved in this kind of thing and admonish those who mislead?

Mr Thomas: I will let Ms Brooks answer for the Secretary of State for Trade and Industry but let me just give an opening answer. As Government we need to be very careful about this issue; there is not an agreed definition of fair trade as such, but there is a variety of schemes which have their own definitions. There is a role for us to try and make more information available about how those different labels are formed and what factors are taken into account, but if we start admonishing and going out of our way to try and point to particular companies that we think are not operating in a particular way we would like we risk getting into all the issues around regulation, albeit in a different way. I am not sure that that is a role for Government, particularly as there is not a definition and particularly as there is not a law that would be broken. Obviously we would caution any company to be careful about how they present what they do, and I suppose that comes from experience of the difficulties that politicians get into when on occasion in the past things have not been perhaps as clearly presented as they might have been.

Q298 John Bercow: Making misleading claims. Mr Thomas: The Government 10 years ago, Mr Bercow, had some problems. Ms Brooks: It is not something I have discussed explicitly with the Secretary of State so I do not want to necessarily speak for him directly. There is an interesting thing here, building on what Mr Thomas has already said, about the role of the trading standards officers who operate within local government; it is not a DTI responsibility. They already have certain responsibilities more generally about how companies operate and what they claim that could be explored further.

Q299 Ann McKechin: Minister, given that much of your staff who are involved with trade are focusing on the international trade perspective—WTO, the EU and EPAs31—I just wonder to what extent you believe that within your own staff you have the right skill set to deal with the private sector in respect of these initiatives that we are talking about in relation to fair trade—the developments on the food line, for example—and to what extent are your staff co-ordinating with staff in the DTI who clearly have a particular expertise of the private sector in the UK and the way in which new products could be developed under a fair trade initiative?

Mr Thomas: We have got good staff who have done and do do a very good job in this area. One of the things that makes them good is that when they recognise that they need to get access to additional expertise they either go to other departments or they turn to expertise in consultancy or they turn to experts within the NGO or civil society world. One

31 Economic Partnership Agreements.
of the reasons why we are having a discussion with the Fairtrade Foundation is obviously because there is considerable expertise within that organisation, as there is within some of the other organisations, about how fair trade can be moved forward. We would see organisations like the Fairtrade Foundation in a sense taking the lead on the development of new fair trade products, and where there is more that we can do in terms of mainstreaming fair trade through the supply chain we obviously look at particular areas which have most potential such as the food industry and we get involved in that way. There is a private sector development advisers group within the Department that meets on a regular basis to share their experiences in country programmes, with other Government departments and with civil society etcetera, so there is an opportunity for that expertise that there is to be shared.

Q300 Ann McKechin: But as you said and as the Fairtrade Foundation in their evidence to us said there is considerable scope for expansion of fair trade products into different product lines. I just wondered to what extent you considered that your own staffing will need to change to reflect that expansion into different areas.

Mr Thomas: As I said, we are beginning a conversation with the Fairtrade Foundation and we will need to look at not only what the Fairtrade Foundation say to us but also what other organisations in this area are also saying to us. I do not think it is for us as a department to be developing new fair trade products; that has to come from the individual initiatives themselves. The judgment for us is about what else we need to do in terms of giving information to consumers, what other financial support if any—and as I say I think there will be more financial support—we want to give and to which organisation we want to give it.

Q301 Chairman: You say you are having a conversation with the Fairtrade Foundation, but I thought it was a little more formal than that. I thought they had asked for a contribution towards a £50 million fund to develop new fair trade products. You call it a conversation: is it a formal application, is it being considered and what is the timetable? Are you able to give us any update on that?

Mr Thomas: I use the word conversation in its broadest sense; they have made an approach to us for a contribution to the £50 million fund, as you have rightly said, but we are not going to just make a decision simply on the basis of a letter, we obviously wanted to have direct face-to-face conversations with them. I have only recently had my first conversation with them about their initial ideas and there will be further contacts at official level this month and next month, and in that way the conversation will move forward. Let me put it this way: I am sympathetic to the direction that they want to move in but I am not, if you will forgive me, going to conduct a negotiation with them through the Committee.

Q302 Chairman: I would not expect you to, Minister, but my understanding is that what they are looking for is for DFID perhaps to take the lead amongst a number of donors towards contributing to that fund because of the strength of the fair trade market within the UK. Have they made a formal application and if so is there a specific amount of money they are asking DFID for or a contribution and is there a timetable for this because clearly what the Fairtrade Foundation is saying, as I understand it, is we are developing a lot of products and we have come forward a long way, but we are going to make a step change to develop more products with a wider reach and we need some additional funding. Presumably they would like to know sooner rather than later whether that is going to happen.

Mr Thomas: Sure, I am sure they do want to know sooner rather than later. There is a series of meetings taking place, some with other donors, and I recognise that our financial support for the Fairtrade Foundation, the current round, is coming to an end at the end of the year; they obviously want to us to plan a way forward and we obviously want them to continue to work and to grow their work, so we will need to bring the conversations to a conclusion soon, I accept that.

Q303 Chairman: It is a big step change. As I understand it hitherto you have given £1 million towards the Foundation and although they have not specified what share they are seeking, the UK’s share of £50 million over five years could be significantly more than that.

Mr Thomas: One of the reasons we want to meet with Harriet Lamb and Mike Gidney, the chair of the Fairtrade Foundation, is to try and establish just how much they would like from us. They recognise that they are not going to get the whole £50 million, but the larger the sum that we will be talking about the more the opportunity cost of that amount grows. There is a whole series of different ways in which we could support with a large sum of money initiatives to support the growth of trade, be it through trade-related capacity building directly in country, or be it through an adjustment fund for the EPAs which are coming. There is a judgment to be made, therefore, internally within the Department about how much we will provide—indeed, if any—and I do think we will offer a contribution to their expansion plans, but that does partly depend on the outcome to our comprehensive spending review discussions—it depends in part but not exclusively on that. If you like, we are at the beginning of a conversation with them and there are other donors who are interested in the Fairtrade Foundation’s proposals—the Swiss looking for is for DFID perhaps to take the lead in this.

Q304 Chairman: Can I say our advisers told us that the money that the Swiss have put up is actually to help with the existing operations of the Fairtrade Foundation rather than developing new products, welcome though it is. I see Laura Kelly shaking her head.
Mr Thomas: We have a proposal from the Fairtrade Labelling Organisation International which the Swiss Government has provided some funds to develop. It is three scenarios, a €15 million, an €18 million and a €22 million fund which is about new product development and an expansion as well, so it does include the same things as the Fairtrade Foundation have proposed to DFID.

Q305 Chairman: There seems to be a little difference of view with our advisers on that. I know Hugh Bayley wanted to come in on this, but before he does we have had evidence from a number of retailers who have said that they have invested significant amounts of money themselves and they are looking to international donors to do rather more. Sainsbury’s told us they have invested £4 million in the banana sector alone and they think the Government could do more: Marks & Spencer say “We know the UK market for fair trade is undersupplied. Therefore we believe donors”—I think that means donors such as DFID—looking to fund market access programmes should consider putting money into fair trade—specifically by investing on the ground at the supply end to enable expansion.” You have done that in small amounts in the past, but is that something that you would respond to?

Mr Thomas: Sure. They are right that there is more that we could do, though we do perhaps much more than some of them are aware, we have had a Business Linkages Challenge Fund to fund a variety of work and to build the ability of poor producers to access the international markets, to achieve the standards, be they for fair trade certification or the standards more generally to get into the European market. We are just about to move into a new Africa Business Challenge Fund which we estimate will be about a $60 million fund which again will help to fund a variety of initiatives, including initiatives such as the supermarket chains which will actually help poor producers meet the standards of the food producers themselves.

Q306 Hugh Bayley: I would ask the Minister to consider the application very carefully. It would be quite wrong in my view for DFID’s resources to be used for product development or for the development of self-regulation services for large retailers such as Tesco or Sainsbury’s or large manufacturers like Nestlé. Should not the Fairtrade Foundation be working on the basis of full cost recovery from the commercial sector? This is a £700 million business in the UK alone and the Fairtrade Foundation provides an international service; why is it that they are seeking to divert money from development work overseas to change the regulatory regime for retailers in developed countries?

Mr Thomas: We do want the Fairtrade Foundation to achieve financial sustainability. When we looked back in 2005 at the progress that they were making we were encouraged by the fact that almost 70% of their income does come from those who use the Fairtrade mark and we obviously want that to move forward. There is a role for the Department, through the challenge funds that we offer, to help make it easier for producers in a developing country to achieve the standards to enable them to sell their goods into international markets; that is where we have a role. I do think it is reasonable to ask supermarkets to look at what else they can do, working with us, and that is where the Food Industry Challenge Fund will play a role, to provide some support from Government to catalyse them into looking at their supply chains in a lot more detail and into looking at what else they can do to mainstream across that supply chain fair and ethical standards. We also work with an organisation called Euregap which sets standards across 70-odd countries; we are working with them to try and make sure that their technical committees, when they set standards, do not set standards in such a way that they will automatically preclude producers in poor countries, so there are a variety of ways in which we work.

Q307 Joan Ruddock: Minister, you have spoken about a number of different schemes and you have indicated as you have gone along that there are some new initiatives coming out on funding. My first question to you would be: is the development assistance fund that DFID has been offering and from which a number of fair trade companies have directly benefited something which is planned to continue?

Mr Thomas: I think you are referring to our Development Awareness Fund rather than development assistance fund.

Joan Ruddock: Yes, I meant development awareness.

Mr Thomas: Development awareness funding is going to increase. The way it works is that each year we get a series of proposals for funding and each year we take decisions on which proposals to fund against a set of published criteria. Over the years a whole range of organisations have secured funding for fair trade awareness work including, I believe, the Fairtrade Foundation but a variety of others too.

Q308 Joan Ruddock: We have heard evidence from a number: Divine Chocolate, for example, made a successful application which was very, very important to their early development, but they said they found it invaluable to have the assistance of Comic Relief in making that application, an indication that they might have found it difficult initially to achieve that themselves. We then heard that Tropical Wholefoods had suggested that it was easier to access some of the DTI funds than to access DFID funds, which was something of a surprise to us. People Tree indicated that they thought that such grants were not very well publicised and indeed were rather difficult to apply for and that they had not managed to get round to making that application. I wonder if you acknowledge that there is some difficulty here and perhaps a lack of publicity for these funding arrangements for development awareness.
Mr Thomas: I am obviously happy to look again at how we publicise the Development Awareness Fund. I should say on Divine Chocolate that certainly a part of the chocolate company’s operation was in a sense helped to be created by a loan guarantee from our staffing in Ghana, so I would be a bit disappointed if they were giving us a lot of grief—

Q309 Joan Ruddock: No, Divine Chocolate were not; they were very happy because they have been very successful but other people were not as happy and I think there was a sense that perhaps one company has got to do very well and has been very encouraged and has got lots of things and been very successful, but others are finding it much more difficult to make that connection with your funds.

Mr Thomas: We do host from time to time our open days for organisations to come and meet with us and see how we run our Development Awareness Fund or our other sources of civil society funding at a central level. I can certainly look at this, particularly if the Committee recommends it, and I will look again at whether or not we need to hold such a session and whether or not there are other things that we can do to try and open up to a wider range of organisations the possibility of getting development awareness funding. There is always some grief each year from organisations who have put in good bids, who have not got funding, perhaps because there is cash-limited pot, but I do not know the particular circumstances that the two organisations you refer to were in. The general point of can we do more I am happy to look at.

Q310 Joan Ruddock: Obviously, it seems to us that that would be helpful. I wondered—because you indicated that there would be an increase—if you are able to say what kind of future funding will be able to go into this scheme.

Mr Thomas: Forgive me, I cannot say that at this stage because it does depend partly on the outcome of the Comprehensive Spending Review and the internal conversations that will obviously follow once we know what our settlement is going to be.

Q311 Joan Ruddock: We see this funding as essential, because we were told very clearly—of course it is obviously about developing markets—that it means that the small fair trade companies cannot perhaps exist.

Mr Thomas: I have been to a whole range of projects in the course of my getting on for four years that we have funded through the development awareness programme, and I am a great fan of what we have done. I do see the programme continuing and if we can increase the amount of finance that is available then I would be sympathetic to them.

Q312 Richard Burden: Could we move away from specific fair trade to the Ethical Trading Initiative which, you have rightly said, is very good, very helpful and the Department gives it a lot of support, £3 million. It is obviously much more specific in terms of what it focuses on, in other words core ILO\(^{32}\) standards, and I just wonder if you have any concerns about its voluntary nature? Fair trade has a very clear process of auditing, a very clear process of independent inspection and so on, but when it comes to the ETI it can be a lot more disparate and very much down to what particular companies choose to do in their own areas, and suffice to say we have had some contradictory evidence about how much independent auditing is going on. Would you like to comment on whether there is any more you think the Department can do in that area?

Mr Thomas: The role for the Department is through the funding that we give to the Initiative and we wanted to give some financial sustainability and some guarantees to the Initiative, which is why we are funding it in the way that we are. One of its strengths is its voluntary nature and if there were any attempt to make things compulsory it would meet with a considerable amount of resistance from some of the people who joined the Ethical Trading Initiative. There has been some assessment of the effectiveness of the ETI done by the Institute for Development Studies and they have charted improvements in impact as a result of those, for example in the Ethical Trading Initiative, wages have gone up, the number of children working in supply chains for companies in the ETI scheme has been reduced, but they also acknowledge that there have been problems. There are problems in terms of organisation by trade unions in some cases. There is clearly more, therefore, that the members of the ETI scheme can do, and when you consider that the members of ETI together have a turnover of about £100 billion, the improvements that are made through the ETI can potentially reach a considerable number of people. This is why I say our approach to allow a thousand flowers to bloom is right; we are not backing one particular initiative over another initiative, we are trying to support a variety of initiatives and in that way make progress in a variety of fields. The good thing about ETI is that it focuses specifically on the broader supply chain. The Fairtrade Foundation has focused on specific products and the publicity and awareness that has been generated around those products I think is helping the climate for a whole variety of companies, both through ETI and through other sources, to look at their supply chains as well, so there is synergy and that is why it is right that in a sense we provide support to a variety of initiatives without getting too heavy-handed about which one works and which one does not.

Q313 Richard Burden: I am not suggesting that you choose one over another, it is more about how the ETI specifically could be made perhaps more effective, accepting that it does a lot of very good work and it has led to improvements. To give an example, we have had evidence from Tesco about the kind of auditing they do of the factories in their supply chain and so on. We have had evidence from War on Want who said it is not really quite like

\(^{32}\) International Labour Organisation.
Tesco are saying because whilst they have clearly signed up to this they have apparently refused to meet War on Want to discuss their findings, which showed a slightly different picture, and War on Want were saying that one of the problems with the Tesco approach to their own audit of their supply chain was that they warn factory managers in advance when the inspectors are coming in to have a look and therefore what is revealed by those audits may be representative, but on the other hand it may not. I am in no position to judge who is right and who is not right on that, but precisely because of the reasons you say the ETI has got huge potential, and because it is very clearly focused on ILO standards—it is not like fair trade where it can mean all sorts of things—it is very clear what it should mean and who it applies to. Could there not be some role that, as far as the UK is concerned, DFID could do or internationally could be done to try and say well here are the standards, these are the kinds of monitoring that should take place and if those companies that do sign up to it are not prepared to do it voluntarily, to look at whether something else might be appropriate.

Mr Thomas: I started out, when we did look at these issues being instinctively sympathetic to that point of view. Should there be some sort of regulation, some sort of standard? My worry about going down that route is that it will put some people off from engaging in the Initiative. I do not think at the end of the day it is for the Government to try and dictate how particular companies or particular NGOs should engage. Our role is to try and catalyse debate and that is what the Ethical Trading Initiative is doing; it is for War on Want and for Tesco to resolve the specific issues that they have together between themselves and I hope there will be a conversation. I do not think it is for the Government to get into that conversation I am afraid.

Q314 Richard Burden: Is there an angle around perhaps—even if the Government does not have a direct role to get involved in making things like ETI mandatory—around where there are these disputes, and if a company in the UK signs up to the ETI and publicises itself as signed up to the ETI in the UK and there is an allegation by workers overseas that those standards are not being met overseas, then there could be something in terms of trying to facilitate the access of those workers to secure redress through the UK courts.

Mr Thomas: I do not think that is an issue for the Ethical Trading Initiative as such, access to the UK courts, and where there are particular allegations that a particular NGO has or a particular trade union has about standards, it is for them to take their concerns to the ETI secretariat and see if through the ETI scheme some of those tensions and discussions could be taken forward. As I say, I come back to what the role of the UK Government should be and that is to try and catalyse a forum where those discussions take place and we are doing that through the funding that we give to the Ethical Trading Initiative. There are obviously a whole variety of other international fora in which discussions about workers’ standards can take place through conversations at the ILO. We have a series of other ways in which we try and fund improvements in governance, where we try and create a stronger civil society, a stronger free media, stronger trade unions so that there are those other accountability mechanisms in place and available to those organisations who might be part of ETI who might feel they cannot get redress, cannot get their issues resolved. There may be other ways in country or in other international fora in which they could get their concerns aired and resolved. Again, I come back to the point I do not think it is for the British Government to be, if you like, the last point of reference for people who have particular concerns about what is going on through the Ethical Trading Initiative: that has to be the secretariat. Our role is to try and catalyse the debate and that is what we are doing by funding the ETI.

Q315 Hugh Bayley: The impact that fair trade has on raising the incomes of the poor seems to us from this inquiry to be patchy. The TUC point out that some of the services which are traditionally provided by the state such as schools and health clinics can be undermined by a Fairtrade dividend being used to provide these services, or at least it leaves without services those people who are unable to become Fairtrade producers because the products they produce are not amenable to Fairtrade regimes. My question is this: your department is putting an increasing amount of money into strengthening fair trade which is something that generally we would welcome because where it reaches poor people it has a real effect, but what analysis has the Department undertaken about how widespread the effect is and how you compensate people who are not involved in fair trade initiatives in the sense of ensuring that equal opportunities through health education and other basic needs are there?

Mr Thomas: One of the elements of the conversation that we had with the Fairtrade Foundation was around this whole question of impact assessment, and one of the further conversations that is going to take place at official level is around the detail of what impact assessment has taken place already independently by the Fairtrade Foundation and what further impact assessment might be necessary. Certainly, before we make a decision about funding we will want to have greater confidence about the quality of the impact assessment that has been done or that is available to us as a department, about not only the work of the Foundation—but I would not want to give the impression that it is not doing good work, I think it is—but we also want to have a sense of what other initiatives are being done as well so that we have got a full range of information to help us make an informed choice about further resources.

Q316 Hugh Bayley: I do not know whether you or your officials are able to comment on the sort of indicators that are being used at the moment or that you would like to use in the future to measure impact in terms of poverty alleviation.
Ms Kelly: In terms of fair trade specifically?

Hugh Bayley: Yes. The public buy these products because they believe it improves the quality of life for poor producers in developing countries. What indicators are used to determine whether it has that impact and what the degree of impact is?

Ms Kelly: Some of our own assessment that we have done when DFID sets up projects, a set of indicators around income, access to healthcare and schools is put in place, and when we have done some reviews of our support to fair trade initiatives by the Fairtrade Foundation in the past it has actually been quite difficult to collect that kind of information in terms of actually this group of fair trade producers, their children have access to these schools. One of the things we would like to do with the Fairtrade Foundation and others is to have a discussion about actually how you can collect that information when you are just looking at one particular group of producers and also think about those producers versus the others that you mentioned earlier that do not have access to fair trade markets. That is an important aspect of the actual impact assessment of fair trade. In terms of the overall poverty assessment, a lot of DFID’s work with small producers and small farmers in developing countries anyway is trying to take an approach that is more participatory, that actually the farmers themselves assess this is what we see would be a sustainable improvement to the quality of our lives, regular access to market trading facilities is available and actually using those sorts of indicators in projects.

Q319 Mr Singh: We have many British companies trading in the south and doing business in the south; is there any Government advice to them in terms of fair trade?

Mr Thomas: There are a number of initiatives. There is what the Fairtrade Foundation are doing in terms of Fairtrade products and there is then, as I have said, the work that a number of other initiatives are doing to try and mainstream fair and ethical standards across supply chains, and that potentially has reach into benefit for the south-south trade as well. In that indirect way, therefore, there is potentially a lot of things that could be done and are happening already.

Q317 Hugh Bayley: It seems to me that impact measurement is quite an appropriate use of Government funding and, as the Minister said earlier, enabling poor farmers to develop their product to a point where it is attractive to fair trade buyers is an appropriate use of Government money. I think that point in comparison with subsidising development of new product lines for retailers which they should be paying for themselves, even if the Fairtrade Foundation does this work they should be seeking to recover the costs from licences that they themselves sell to suppliers.

Mr Thomas: If I can come back, we think there is more to be done on impact assessment and that is part of the conversation we are having. Whilst there has been good progress in terms of financial sustainability, we think there is more that is possible from the Fairtrade Foundation and that is part of the mix of things that we continue to talk to Harriet Lamb and her team about.

Q318 Mr Singh: DFID recognises that there is a beginning of south-south trade in fair trade products and, for example, Mexican consumers purchase fair trade Mexican coffee. There must be a potential for enormous growth in those markets but one of the problems is the cost of raising consumer awareness and launching new products in a new market, and that seems to be a huge stumbling block. What is DFID’s attitude to this trade—are you taking any positive steps to encourage it—are there wider donor discussions in terms of how to encourage that trade and how to grow it? Do you have a policy?

Mr Thomas: I would not say we have a policy as such but we are obviously aware of the potential for south-south fair trade. I believe this is one of the areas where there might be potential for a large fund such as the Fairtrade Foundation is proposing to perhaps start looking at that, but I do not think it is for the Government specifically to be saying you should do this or you should do that, it is for the various initiatives that are out there to consider whether or not they want to move into south-south fair trade or not. For us it is a conversation about whether we should give continuing funding or more money to any of the specific initiatives and, as I say, I am sympathetic to that case and it is not a point where we have concluded our discussion in that area.
they have a relationship already and in that sense I am not surprised that they want us to indicate whether we support their initiative, but I do agree with you that there should be considerable scope to draw funds from the private sector to support this initiative.

Q321 Mr Davies: I am not surprised they come to you. Mr Thomas—anybody who thinks the Government might give them money would be a fool not to come to you for it. If I thought you were going to give me some money I would probably come and ask for it.

Mr Thomas: Always happy to see you, Mr Davies.

Q322 Mr Davies: But the question is whether this is the sort of situation involving market failure essentially where progress can only be made by the public sector making a contribution or whether it is actually quite a successful business which ought to be able to look to generate the kind of cash flows required to make a return on investment, and if that is the case the private sector will supply the initial investment funds. If I can move on to another matter that I want to ask you about, one of the issues about fair trade does appear to be that it works pretty well with organised farmers, certainly not with the poorest farmers but with the relatively prosperous farmers—and it is a very good thing of course that they should be relatively prosperous and they should be organised—in countries that on the whole are not doing too badly, places like Ghana and South Africa even, which is a relatively middle income country. However, it has not actually had much impact so far on the really poor farmers, the people who really remain close to subsistence, who are a long way from markets and who are not organised, the massive number as we all know of poor peasants in this world that we most want to help. I do not mean we do not want medium farmers to continue to thrive, of course we very much do, but it may well be that they would then be in a situation where market mechanisms are sufficient to support their future development. The concern of everybody in this room, probably on both sides of this table, is really with the poorest and with those who are least well-organised and furthest away from markets and all that markets can deliver. Is it your impression that fair trade has made much impact on those poorest farmers? Of course they are more remote, they are poorer, they are less organised and the challenge is much greater, but in so far as public money is being used would it not be a good idea to look and see whether public money could not help leverage greater efforts in the direction of the poorest?

Mr Thomas: I suppose that concern is one of the things that is driving us to say there needs to be a more rigorous impact assessment of the successes that the Fairtrade Foundation and indeed other initiatives have had so far. There are examples we know of where farmers who are not organised have been helped to organise into co-operatives and sell goods and achieve standards. Your point as to whether or not this is being done on a sustainable basis and is it the very poorest who are being helped or is it just those who are not worst-off who are being helped is an entirely appropriate question and it is one that we want to work through with the Fairtrade Foundation and indeed with the other schemes before we take a decision about how much money, if indeed any, we will give to the Fairtrade Foundation’s £50 million fund proposal.

Q323 Mr Davies: Perhaps I could just say, Mr Thomas, that I am pleased to hear that response because Fairtrade has done a good job and it is good to see farmers from developing countries getting a reasonable return. At the same time we realise that this is a business which, for the reasons I have just mentioned, ought so far as the existing business is concerned to have a pretty good future on ordinary fundamental market principles. It does seem to me that there is a considerable need to ask what we can do for those who are worst off and, on present prospects at least, are most unlikely to be touched by market mechanisms. Therefore, if you can find a way in your conversation with the Fairtrade Foundation to move in that direction a lot of us would be much happier to see public money being used in that way, where it is obviously much more difficult to get private sector money invested.

Mr Thomas: I agree with your view of the Fairtrade Foundation on that—I do think they have done an excellent job and they deserve recognition for what they have achieved so far. The Fairtrade Foundation are not the only group obviously, and I know you are not saying this, in which we can try and do more to help the non-organised get organised and get their products to market. I mentioned the Africa Challenge Fund that is due to be launched with $60 million we hope within its fund where a whole series of projects and programmes can be supported in that way to help the very poorest, so there is a variety of ways in which we engage with this very question.

Mr Davies: Of course I agree with that and clearly where the problem is remoteness investment in infrastructure perhaps you will say is absolutely key; we both agree on that. Thank you.

Q324 Joan Ruddock: Minister, I do not know if you are familiar with the European Parliament Development Committee’s report on fair trade.33

Mr Thomas: I would not want to say I am familiar with it. I am aware they have done one.

Q325 Joan Ruddock: I just thought I would ask the question because I know they would be interested because they do have messages for Member States as well as the EU itself. One of the recommendations they make is that Member States should take appropriate measures to ensure that consumers have access to all the information they need in order to make informed choices. In your conversations with us today you have said that more could be done. I certainly as a busy consumer am aware that I cannot

really distinguish when I am shopping between the various claims. So I would just ask you again if you are content that people have sufficient information to be able to make an informed choice.

**Mr Thomas:** Let me put it this way: I believe there is more the Government could do to make more information available to consumers and it is then for the individual consumer to in a sense take the trouble to look and to make that judgment from there. As I say, the Defra model in terms of green labels is quite an interesting model and it is one that I intend to certainly look at.

**Q326 Joan Ruddock:** We have already spoken about a kite-mark and you have referred to Defra several times. Does that imply that work is underway or is this something that you would be prepared to consider but has not actually started?

**Mr Thomas:** It is something that I am prepared to consider but has not actually started.

**Joan Ruddock:** It has not actually started. Thank you very much.

**Q327 Richard Burden:** Could we look at public procurement for a minute? Obviously there is a huge impact that can be had through public procurement and apparently the supply of food and catering services in England accounts for more than £1.8 billion annually. Speaking of my patch I am very pleased that Birmingham has got its status as a Fairtrade city and there have been quite a lot of efforts to try to encourage other places to do the same, and the OGC guidelines are designed to help promote that. However, there is some concern that the interplay of European rules and regulations and then the interpretation of those through the OGC guidelines can lead to bureaucracy and create an impression that it is actually quite difficult to move down the road of procuring goods and services on a fair trade basis, and the European Parliament again in their report of July last year called on public authorities in Europe to integrate fair trade criteria into their public tenders and purchasing policies. The will seems to be there from all directions, therefore, to try and promote fair trade in public procurement, but when that will is translated through into action it then becomes really, really difficult. Is there anything that the Government can do to simplify that to ensure that the moral steer it has given is translated into a steer that says you can actually do this as well as hope to do it?

**Mr Thomas:** There are two specific things that we can do as a Department: one, we can do more to encourage other government departments and other agencies of the state to have a look at the whole question of using fairly traded goods in the offers that they make to employers etcetera. A number of government departments such as ourselves, Defra, the Treasury and the Houses of Parliament already do use some fair traded goods and I am intending to write round to every government department and agency to ask them (a) what they are doing and (b) encourage them to look at what else they can do.

There is then a second issue about the clarity of the guidance that is available and we have started a review of whether the guidance needs to be clearer to help government agencies and others and that will be part of the next stage of that—it is part of what I am going to write round to other government departments about.

**Q328 Mr Davies:** Surely what is needed, Mr Thomas, is a clear, authoritative steer from some legal opinion essentially—maybe from the European Commission—first of all as to whether the decision to buy fair trade products is consistent with the public procurement directive. It is a legal question, is it not, and people need an authoritative answer to it. You need that and other government departments need that and local government needs that. Secondly, local government needs a steer from central government—and that is a decision you can take within the Government without any legislation and without asking any lawyers for any opinions—simply as to whether or not it is consistent with the Treasury rules on better value and so forth for them to adopt fair trade purchasing policies. As far as I can see there is no such authoritative statement available, either to central government or to local government at the present time. Do you have plans to ensure that one is provided?

**Mr Thomas:** There are a number of different tensions in terms of public procurement. There is, as you say, a need to secure value for money; there is the issue which we touched on in earlier answers that there is not any agreed definition of what constitutes a fair traded good and so we need to be slightly careful about the definitive assessment that we make; and one of the reasons for wanting to write round to government departments is to ask them what problems they are having in terms of the clarity of the guidance and to see whether or not we can give clearer, more definitive guidance to them. As I say, I do not know what we are going to get back. I am just about to write out, but I recognise that lack of clarity has been one of the concerns that some people had about the guidance that is on offer.

**Q329 Mr Davies:** Your answer just confirms that there is complete obscurity about this, where there should be some clarity, and you certainly cannot expect local government officers to take a decision which might land them in very hot water indeed with the Audit Commission or with central government—it might even affect their future career—because they have obviously got to play it safe unless they have clear, unambiguous guidance from central government. So far as central government is concerned, you obviously have to make sure that you do not land yourselves in trouble with the European Court of Justice, so here clearly we need to get an opinion. The normal way in my understanding to get a clear opinion as to how a directive should be interpreted is to get a decision from the Commission. Why do you not simply ask the Commission the question and see if you can get a written opinion from the Commission that would be justiciable and if you ever had any problems with

34 Office of Government Commerce.
the European Court of Justice you could then use
that in your defence. Is that not a sensible way
forward?

Mr Thomas: If we need to talk to the European
Commission then we can obviously talk to the
European Commission. The first stage is to write
round to government departments and government
agencies to see what problems they are having.

Q330 Mr Davies: You and I know what the problem
is: they do not know, they do not understand what
the rules are and what they can and cannot do. That
is the problem and you and I know that. By all
means write round, but we all know that is the
answer you are going to get and you are then going
to have to do something about it, are you not?

Mr Thomas: Absolutely, we are then going to have
to do something about it and going to the European
Commission may well be one option, but there may
be other options. We are at the beginning of the
process, Mr Davies, and I am happy to keep the
Committee up to speed on where we come out at the
end of that process but I do think I need to get some
responses first from colleagues in other government
departments.

Q331 Ann McKechin: Mr Thomas, given that we
have Fairtrade schools, Fairtrade colleges, fair trade
churches and Fairtrade towns and cities quite a lot
of people might feel quite surprised that the
Government actually has not done very much about
becoming a Fairtrade government. If you are only
just writing round now to government departments
to ask what they are doing, in what way do you think
the Government and your Department are going to
actually promote Fairtrade within government
departments themselves? If we actually had No 10 as
a Fairtrade No 10 or departments actually saying
openly they are using Fairtrade, just as local
authorities are doing up and down the country,
surely that would be a very big step forward in
actually changing the culture?

Mr Thomas: It would be fairly unfair to damn us as
not committed to fair trade given all the work we are
doing in terms of the Doha Round, EPAs et cetera
and the funding we have given to the Fairtrade
Foundation and the other stuff we have done in terms of international trade does need
to be taken into account in the assessment of where
Government is on fair trade in general.

Q333 Chairman: Mr Thomas, thank you for coming
along at this final stage of our inquiry. It is fair to say
first of all that the Committee has already produced
two reports on free trade and the Doha round and
we recognise that that is a much, much bigger issue
for poor people in poor countries—or at least it
would be if we got it. Nevertheless, we have also been
surprised really by the scale and the speed with
which fair trade has taken off which of course gives
individual citizens the ability to take decisions in
their lives that they feel have a direct consequence on
poor people in some countries, although as Mr
Davies has pointed out they are often not the poorest
people in the poorest countries, and we will
inevitably make our own recommendations. You
can tell from the flavour of this that the Committee
has not really fully digested all the information we
have got or come to any definitive conclusions, but
we will do that in the next three or four weeks and I
hope we will have some recommendations to your
own Department and other government
departments which you will regard as helpful and
constructive in terms of what we think the
Government might do to maximise the potential
reach of fair trade as well as also to perhaps
adjudicate on them because clearly the Fairtrade
Foundation feels very, very strongly about their
achievements, which are very admirable, but they
are one organisation and we all take the point that
we want fair trade as a principle to be as widely
extended as possible as long as it is delivering real
and practical benefits to poor people. I hope when
we come to give our conclusions, we will have a
report that people will find worth reading. I do not
think we know yet quite what we are going to write,
but we have certainly found the inquiry extremely
worthwhile and helpful. It is possible that
inadvertently we got drawn into the Ethiopian coffee
row with Starbucks and perhaps—who knows—we
are a catalyst—to use your own term)—in helping
it to be resolved in a way that is not quite as
Starbucks had intended when we started this
inquiry. Thank you very much.

Mr Thomas: Chairman, thanks very much and I will
obviously look at your conclusions with great
interest and respond to you in the usual way.
Written evidence

Memorandum submitted by the Department for International Development (DFID)

SUMMARY OF CONTENTS

Memorandum (including responses to the specific questions raised by the Committee)

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2. The Role of Fair and Ethical Trade in Development
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SUMMARY

1. If the Millennium Development goal of halving the proportion of people living in extreme poverty by 2015 is to be achieved, trade has a crucial role to play. DFID believes that creating a fairer international trading system that improves markets access and makes markets work better for the poor is the best way for trade to contribute to poverty reduction.

2. DFID also believes that trade is not intrinsically fair or unfair but that we should be influencing the way that trade rules and markets operate to promote economic growth and poverty reduction.

3. Fair and ethical trade is a small but significant part of the international trading system that seeks explicitly to build more equitable trading partnerships between north and south. It ranges from certification and labelling schemes to codes of conduct.

4. DFID sees the main contributions of fair and ethical trade to development as raising awareness among consumers and business about patterns of international trade and the situation of poor producers, encouraging market participation and capacity-building of producers, securing a larger percentage of the retail price for producers and promoting decent labour standards. DFID has supported fair and ethical trade initiatives for a number of years, committing over £8 million since 1997, through direct support to Fair trade organisations, development education in the UK, and its regional programmes.

5. There has been very little impact assessment of fair and ethical trade schemes in terms of their direct impacts on sustainably reducing poverty. They have been more successful in raising awareness of fair and ethical trade issues, witnessed by the increasing number of fair and ethical trade schemes, increased engagement of the private sector and increases in sales of certified goods. Despite impressive increases in sales, fair and ethical trade is still only a very small, niche market in the context of north-south trade. Even given sustained growth, the volume of fair-trade trade is dwarfed by overall trade flows.

6. DFID therefore sees the key challenges to the industry as being to maintain high product quality and ethical standards, and to work with the private sector and donors to catalyse reforms to the pattern of trade in mainstream markets. This will encourage more businesses to adopt similar practices, benefiting many more small-scale producers.

7. We are already involved in discussions with industry and fair and ethical trade agencies on how to learn from their trade experience and better incorporate these principles in mainstream supply chains.

1. DFID’S APPROACH TO TRADE AND DEVELOPMENT

1. Trade is crucial to development and reaching the Millennium Development Goals (MDGs). Trade reform leading to increased trade has been one of the key ingredients of rapid growth and poverty reduction.\(^{37}\) DFID believes that creating a fairer international trading system that improves market access and helps make globalised markets work better for the poor is the best way for trade to contribute to poverty reduction. The 2000 White Paper\(^{38}\) committed the UK government to supporting an open rules based system and to promoting equitable trade rules and an effective voice for developing countries. It also committed the UK to supporting reductions in barriers to trade and to building the capacity of developing countries to take advantage of new trade opportunities. The 2004 White Paper renewed this commitment to making trade work for the MDGs.\(^{39}\)

\(^{37}\) Chen, S and Ravallion, M. “How have the world’s poorest fared since the early 1980s?” 2004.


2. DFID is working towards the long-term outcome that all developing countries and poor producers within them are able to seize the opportunities and manage the threats from increasingly globalised markets, using the gains from economic growth to reduce poverty. Increased trade between countries also has the potential to improve regional stability and security. With the world interconnected in mutually beneficial exchange the rights of all people to security could be realised.40

3. Fair and ethical trade has also made an important contribution to raising awareness of global trade relations and the situation of poor producers in poor countries among consumers and business in the developed world. As such DFID supports fair and ethical trade initiatives as part of an overall approach to helping poor people benefit more from trade.

4. The International Trade Department in DFID focuses on influencing, mainly by developing and deploying an evidence base with its networks in UK government departments, the European Commission and multilateral institutions and the WTO to ensure fairer trading arrangements. The strongest focus is on the international trading system, especially the WTO Doha Development Agenda, the EU-ACP Economic Partnership Agreements and ongoing reform of the EU Common Agricultural Policy. We are continuing to work hard in conjunction with other departments across Whitehall towards achieving pro-development outcomes from all these negotiations.

5. DFID’s trade-related capacity-building work is geared to help build poor countries’, and producer communities’ within them, capacity to trade. It includes a wide range of activities in agriculture and natural resources, standards compliance, investment, competition and business development services, intellectual property, labour standards, corporate social responsibility as well as funding for fair and ethical trade initiatives. It is in these areas the bulk of DFID expenditure on trade takes place. In 2004 we spent a total of £24 million on trade-related work.41 DFID also played a major role in the recently developed concept of “Aid for Trade” that encompasses these areas.

6. A key theme in many of these areas of work is helping producers compete in new markets and working in partnership with the private sector, bringing commercial benefits that help to reduce poverty in their communities. Through the Business Linkages Challenge Fund,42 DFID supports 57 programmes and projects that help producers improve their position in the global economy.

7. Three examples of support under the BLCF below illustrate the substantial development benefits that can arise from working in partnership with the private sector to support new business development with poor producers. Analysis of the experience of the fund across a number of projects and from another challenge fund, the Financial Deepening Fund, highlighted the catalytic nature of this type of funding from donors in leveraging greater private sector resources.

41 According to WTO definitions and using the WTO/OECD database.
42 The Business Linkages Challenge Fund (BLCF) supports private sector partnerships that bring commercial benefits to the businesses that participate and help to reduce poverty in target developing countries. Companies have access to grants between £50,000 and £1,000,000 to increase access to markets, transfer technology, improve competitiveness, or address the policy and regulatory environment for business. The BLCF is financed by the UK Government’s Department for International Development and managed by Emerging Markets Group (EMG) Ltd. More information on the BLCF can be found at www.businesslinkageschallengefund.org
Q. How can aid be more effectively mobilised to help producers improve the quality of their produce in order to access fair trade markets?

8. The quality of produce is vital for market penetration. DFID has supported work (see East Africa Tea Standards case study above) to help fair-trade producers meet health and safety standards. Regardless of the quality of the fair-trade product, unless health and safety standards are met it will be virtually impossible to sell in a developed-country market.

9. Standards are a double-edged sword. Whilst they are mainly used to harmonise and promote improved production processes, safety and quality, standards have been and still are used to protect domestic markets from competition. Developing countries do accuse developed countries of raising standards to levels that are de facto barriers to their products. DFID works across Whitehall, the European Commission and with relevant WTO committees to ensure standards and standard-setting processes are fair and transparent for developing-country producers. DFID uses its resources to fund the Standards and Trade Development Facility in Geneva. This organisation co-ordinates and funds international capacity-building activities related to agricultural product standards in developing countries.
10. The past decade has also seen trans-national food retailers and large supermarkets introducing their own quality standards. The driving forces are largely the same as for governments and international agencies but private standards tend to be higher than those set by governments and international standard-setting bodies. Private standards often include the process of production, the use of labour and impact upon the environment. DFID believes that, whilst challenging, such standards are largely positive because they enable market access and are linked to support services that promote good agricultural practices. Farmers who have managed to attain such high standards are normally more innovative and resilient. We keep a close watch on the impact of private standards on poverty and the ability of small farmers to meet them. DFID is working closely with organisations such as EurepGAP (a standard-setting organisation for retailers and producers in 71 countries) to ensure the special production circumstances of developing countries are considered by its technical committees. We are keen to see other private standard-setting organisations abiding by common codes of good practice in standard-setting.

Q. Is there a role for donors in helping to develop the interests of producer communities in developing countries (for example, the Ethiopian coffee trademark dispute)?

11. DFID actively supports establishing ways for producers of developing countries to secure higher prices in export markets that reflect the distinctive characteristics of their local products. In the case of Ethiopia, the “birth place of coffee” according to many, varieties originating in the Harar (Harrar), Sidamo and Yirgacheffe regions are widely regarded as possessing unparalleled flavour and high quality.

12. However, in a global market for coffee grains, where prices are dictated by international auctions, Ethiopian producers receive very low prices: typically around $1 (50p) per lb, a small fraction of the retail price. A half-pound tin of roasted, ground coffee costs about $5. Most often these are prices close to that of bulk coffees of much lower quality, and negotiated at commodity auctions. A portion of the sales attract a premium. For instance, Starbucks offered on average a 23% premium in 2005, and 37% in 2006 ($1.42 per lb), over the New York commodity-market price for the coffees it buys worldwide.

13. Ethiopia believes in the potential of its fine coffees to attract higher producer prices and be recognized by consumers for their distinctive quality. High retail prices and branding strategies in the specialty coffee market suggest that this is a viable option. Ethiopia is thus seeking to have better control on the distribution of its high-quality coffees, negotiate increased brand awareness, and in the medium term, obtain a higher share of the retail prices. Securing trademark rights for three of the most famous coffee regional names and licensing their use to specialty coffee roasters and retailers, is central to this strategy. By doing so Ethiopia is using intellectual property rights to capture part of the intangible value of Ethiopian coffee.

14. This initiative, which DFID has helped fund along with advice from non-profit organizations, and free legal advice, could set an example for other developing countries on how to promote local unique products on rich countries’ markets. It also demonstrates how knowledge of intellectual property rights legislation in developed countries can be used to further the market interests of the poorest countries. DFID funds a number of activities on IPR, drawing on the recommendations of the Commission for Intellectual Property Rights.43

Q. How does the international trade system impact on ethical and fair trade production (for example, the impact of changes in the EU tariff regime for bananas on small developing country producers)?

15. WTO rules prohibit differentiation between products on the basis of their means of production or process. This is the so-called “PPM clause” (process or production methods). The intent is to encourage fair competition, by making it illegal to exclude a company’s or a country’s products from a market based on how they are produced. Developing countries themselves lobbied for these rules as they feared developed countries would use them for protectionist purposes.

16. Tariff escalation, with higher tariffs on processed products such as chocolate, coffee, clothing and many handicrafts can limit access into developed-country markets for these products, not just for fair and ethical versions. So reductions in tariffs, in particular through the WTO, will have a positive impact on all trade. However, trade reform has losers as well as winners. In some cases, fair and ethical trade can provide an alternative livelihood for producers who, as a result of trade reform, are no longer able to compete in mainstream markets. This is the case with Windward Island bananas. DFID funded work to help identify ways to increase the competitiveness of banana production and other livelihood opportunities. However, the potential of fair and ethical trade to provide a solution to preference erosion is likely to be limited to a few specific cases.

The Importance of Fairtrade to the Windward Islands Banana Industry

Bananas are of great importance to the Windward Islands. The banana trade provides a living for thousands of small-scale producers and in the past accounted for up to 50% of the Islands’ total export revenue. However, production is relatively high cost, because of a number of inherent characteristics of the industry.44

Successive changes to the EU banana regime have steadily eroded the protection traditionally given to the islands’ producers. Compounded by global oversupply and low retail prices, the islands’ market share has been eroded by lower-cost producers, resulting in reduced revenues, decreased production and increases in unemployment and related social problems. By 2003, exports had fallen to about 25% of 1992 levels and there were corresponding falls in the numbers of farmers and workers sustained by the industry.

In searching for new market opportunities for the islands’ banana producers, the Windward Islands National Farmers’ Association (WINFA) began working with the Fairtrade Labelling Organisation International (FLO) in the late 1990s. WINFA became a registered Fairtrade banana producer and started to export Fairtrade bananas in June 2000. Fairtrade has since emerged as the main lifeline of the industry: 80% of the bananas from the islands are sold under Fairtrade terms and they receive a premium of around 6p a kilo, in addition to a minimum guaranteed price (which varies across different producers).

The market for Fairtrade bananas is growing, particularly in view of the recent switch by some supermarkets to 100% Fairtrade bananas. However, challenges remain: in particular the Fairtrade market for bananas is becoming increasingly competitive with Latin American and other Caribbean producers moving into Fairtrade production.

2. The Role of Fair and Ethical Trade in Development

17. Fair and ethical trade is a small but important part of the international trading system. It includes a wide range of initiatives from fair-trade certification schemes to codes of conduct. DFID fully supports the objectives of fair and ethical trade schemes. These include: helping poor producers improve their terms of engagement with markets and build their capacity, improve the distribution of profits along supply chains, raising awareness among consumers in developed counties about trade and development to create pressure for change in favour of poor countries and producers, and promote improved labour standards. DFID has committed nearly £8.5 million to fair and ethical trade initiatives since 1997.

Q. How best can donors help to develop fair trade consumer markets in both developed and developing countries?

18. Raising awareness amongst consumers, businesses and policy-makers about how mainstream international trade excludes the poor has long been a fundamental objective of fair and ethical trade organisations. Some have been highly successful at lobbying on these issues. Partly as a result of these activities, the growth of the sector has been mirrored by a significant shift in mainstream business practice towards an understanding of the importance of corporate social responsibility (CSR).

19. A significant proportion of DFID funding for fair and ethical trade has been for public awareness raising-activities. Some examples include:

— Fairtrade Education Project (Comic Relief with Trading Visions, The Day Chocolate Company and Kuapa Kokoo): This provides engaging and effective teaching materials to UK schools and colleges focusing on people’s experiences of Fairtrade.

— Fairtrade Out of Home (Fairtrade Foundation): This focuses on the introduction and promotion of Fairtrade in hotels, restaurants and catering establishments.

— Buying into Development (Traidcraft Exchange): increases opportunities for UK businesses to positively impact on poverty in developing countries through changes in their purchasing practices.

— Fashioning and Ethical Industry (Labour Behind the Label): supports tutors of fashion-related further and higher education courses in engaging with today’s corporate social responsibility agenda.

— Young Co-operatives (Young Co-operatives): helps young people (aged 13–18) learn about the difference that fairtrade makes and how they can help by setting up businesses that sell Fairtrade products.

— *Fairtrade Schools* (Fairtrade Foundation): a nationally co-ordinated Fairtrade schools award scheme, implemented locally, regionally and UK-wide from primary to sixth form.

20. DFID ministers have participated in events promoting fair trade, including the establishment of fair trade boroughs and cities, and spoken at the launch of fair-trade products, such as cotton. DFID was also a founding member of The Ethical Trade Initiative and sits on its board.

21. In addition to financial and moral support DFID also lends its support by example. Following DFID’s lead, a number of other government departments, including DTI and Defra, as well as both Houses of Parliament, make available a range of fair trade products, including tea, coffee, drinking chocolate, orange juice, bananas (where available), chocolate and cookies. The European Parliament has also recently undertaken to provide only fair-trade tea and coffee in its catering outlets.

22. Although embryonic, South-South trade in fair-trade products is growing and fairly traded handicrafts and food are now sold in countries like Kenya, Ecuador and Nepal. Although the incomes of consumers in developing countries are generally too low for fair-trade certified goods charging a price premium to gain market shares on the scale achieved in Europe, there is likely to be the potential for growth in these markets. Key to the success of this would be the development of appropriate standards and certification processes in these countries and this could be an area for donor support in the same way donors, including DFID, have supported the development of the Fairtrade Labeling Organisation International (FLO).

3. **IMPACTS OF FAIR AND ETHICAL TRADE**

23. While fair trade certified products provide a small price advantage to producers, and the fair-trade premium is used to invest in community projects, the impact of these in sustainably reducing poverty among producers has not been widely investigated. There is certainly plenty of anecdotal information from fairtrade certified producers saying how fairtrade has improved their lives but there has been limited systematic analysis of sustainable poverty reduction impacts. Similarly, there is little analysis of the wider range of fair and ethical schemes. Some certification schemes do not guarantee prices or provide a premium, so it is difficult to quantify what aspect of the schemes benefits producers.

24. Most observers agree that fair and ethical trade cannot solve all the problems of poverty in the South. For example, in 2005 Fairtrade labelling reached only one million workers and farmers with four million dependents.45 Achieving the MDGs will require a much larger number of producers to benefit from trade. It also remains a very small proportion of overall retail sales in developed countries. In the UK in 2003 sales of fairtrade certified goods made up only 0.17% of a total £67 billion expenditure on food and drink. Despite impressive increases in fair-trade sales to around £185 million in 2005, the market for certified goods is likely to hit a ceiling, as has been demonstrated in other non-price-competitive markets such as organic.46

3.1 Fair and ethical trade and poverty

Q. *How effective is fairtrade in reducing poverty?*

25. Assessing the poverty impact of fair and ethical trade is complex. In 2000, DFID commissioned a report to guide its work on fair and ethical trade.47 This report identified four ways initiatives can have a positive impact on development:

— By supporting participation in markets on a more equitable basis they aim to bring about changes to trading systems, whilst creating sustainable businesses.

— By securing a premium that consumers are prepared to pay for fairly traded retail products. By pressing importers and processors to guarantee producers a minimum price, fair trade transfers pass risk from the most vulnerable producers to intermediaries higher up the supply chain that are better resourced to bear it.

— By empowering producers through assisting them to access training, trade credit, organisational development, and marketing advice.

— By raising awareness amongst northern consumers and the private sector about problems faced by southern producers, and the effect of consumption patterns and international trade policy on the south. Many northern organisations are also engaged in development education.

26. There has not been a great deal of analysis of the impacts of fair and ethical trade schemes, and most impact assessments are primarily interview-based. However, there are a number of lessons emerging around the above issues, including from DFID-funded projects.

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27. On supporting participation in markets, for small and marginalised producers it is very difficult to access international markets. They lack access to information, infrastructure and influence on market prices or tariff rates. There is evidence that participation in certification schemes (not just from fair-trade schemes but on food safety standards such as EurepGAP) can help producers to gain a better understanding of international markets. They provide producers with contacts and mobilise resources to help with getting market information and develop business and technical skills. For example, for coffee growers who sell the majority of their coffee through conventional channels, access to market information can be very important in negotiating better prices from coffee brokers. Many coffee-producer groups appear to use the information and resources they gain in working with fair and ethical trade networks to enter other high-return markets like that for organic produce. Although it is difficult to quantify the extent to which this occurs, producer groups argue that these benefits far outweigh the value of any fair-trade premium they receive.48

FAIR TRADE COFFEE PRODUCTION IN TANZANIA: KILIMANJARO NATIVE CO-OPERATIVE UNION

The Kilimanjaro Native Cooperative Union (KNCU) comprises 96 coffee-grower societies around Mount Kilimanjaro in Tanzania. Although only 10–15% of the coffee KNCU purchases from members is sold to fair-trade organisations, this has played a big part in developing KNCU’s exports. TWIN helped set up KNCU’s export office, trained their Export Manager, and linked KNCU with commercial coffee companies. Fair Trade Organisatie, a Dutch alternative trade organisation, is assisting KNCU farmers to convert to organic farming, and obtain organic certification.

28. On securing a premium price for producers, evaluations indicate49 that for many small-scale farmers, the income benefits of fair and ethical trade may only be small when commodity prices are buoyant, but that they become significant when commodity prices slump. Where the volumes sold through fair-trade channels are small, many cooperative unions opt not to pass their premium direct to members but pool it to support the operation of the cooperative or devote it to community programmes.

29. In the handicrafts sector, the positive impact of fair-trade schemes on poverty appears more clear-cut. Here employment is often timed to coincide with the agricultural off-season, providing important alternative income opportunities for the rural poor. In areas of high unemployment and for certain types of worker (eg women and the disabled), such employment may be the only source of income, thus helping marginalised groups escape extreme poverty.

30. Reports on the impact of the fair trade premium on the producers involved have generally concluded that the money reaches the poor and marginalised, and that the system has a positive influence on the life situation of those benefiting from it. Despite the growth in schemes and sales there has still not been any impact study that uses extensive comparative data from before and after the introduction of fair-trade certification to evaluate its long-term effects.50

31. On empowering producers, a number of case studies suggest that the most important contribution of fair and ethical trade initiatives has been to strengthen capacity of producer groups and to increase their bargaining power. Successful organisational development and marketing support, provided as part of a fair-trade package, can generate gains beyond the commercial value of the products traded through fair-trade channels (it is worth noting that the quantities of product designated “FAIRTRADE”—ie attracting the price premium—may represent only a small proportion of the total volume sold by a producer group). The extent to which producers benefit from schemes will therefore to a large extent be determined by the effectiveness of producer control and the transparency of the management of the cooperatives.

FAIR TRADE COFFEE PRODUCTION IN CHIAPAS, MEXICO

A case study of Fair Trade coffee exporting cooperatives in Chiapas, Mexico found that they rely to a large extent on extra income from both the Fair Trade and organic market. Without these alternative outlets, it would have been difficult for them to export, and to have a positive effect on the market situation. The strongest proof of this is the fact that there do not seem to be any cooperatives in the region exporting only conventional coffee to ordinary purchasers. However this is a conclusion that should not be generalised to all other coffee-producing areas in the world. In other places (both Africa and Latin America), there are cooperatives exporting coffee without support from alternative trading systems.14

49 OPM/IIED op cit.
32. On raising awareness among consumers and business, it is in this area that perhaps the most reliable data exists about the impacts of fair and ethical trade. Public awareness of the Fairtrade mark in the UK now stands at 39%, a 14 percentage point increase on 2003. This is matched by increasing sales, with global sales in 2005 reaching £1.1 billion, £276 million of that in the UK. A growing number of retailers are also stocking fairly traded products. It is estimated that Fairtrade-labelled products can be purchased in over 55,000 supermarkets in Europe, and the Ethical Trading Initiative (ETI)’s corporate members combined annual turnover is over £100 billion.

Q. What has been the impact of donor funding for fair trade?

33. DFID grants to fair and ethical trade initiatives have focused on raising consumer awareness of ethically traded products and labour standards, engaging with the private sector on issues of fair and ethical trade, support for capacity-building of southern producer groups and helping to develop new products. Recent grants to the Fairtrade Foundation have also covered improving its financial sustainability, in recognition of the fact that donors, including governments and NGOs, continue to provide financial support for many fair-trade organisations’ core activities.

34. As highlighted in paragraph 18 above, a considerable amount of DFID support has been directed at public awareness-raising, with some notable success. However a number of other initiatives DFID has supported have also had positive outcomes. These include the underwriting of the start-up costs of the Day Chocolate Company, which manufactures and markets fairly traded chocolate in the UK. This company is part-owned by northern ethical investors including TWIN, and part by Kuapa Kokoo, the Ghanaian farmer co-operative from which Day sources its cocoa. This is an example of not only supporting Fairtrade certification for Ghanaian cocoa but also enhancing Kuapa Kokoo’s other marketing channels.

**FAIR TRADE COCOA PRODUCTION IN GHANA: KUAPA KOKOO LIMITED**

Kuapa Kokoo is the only source of FAIRTRADE cocoa in Ghana. Kuapa Kokoo Limited was formed in 1993 and became a cooperative in 1996 as Kuapa Kokoo Union (KKU). It now has more than 35,000 farmers and owns a third of the Day Chocolate Company who manufacture Fairtrade Divine and Dubble chocolate bars in the UK.

TWIN Trading and other FAIRTRADE organisations, with DFID support, helped build KKU’s capacity. Initially FAIRTRADE sales amounted to around 15% of KKU’s total sales. However, these sales have been stagnant (between 300 and 600 tonnes per year) while KKU’s total sales have grown to around 18,000 tonnes. FAIRTRADE sales currently account for around 2% of KKU’s sales. Only a small proportion of the price premium on fairly traded cocoa sourced from Kuapa Kokoo has been paid out to farmers. The majority is paid into the Kuapa Kokoo Farmers’ Trust, which is used to fund community-development projects.

Although Kuapa Kokoo’s emergence did not depend on TWIN Trading, the technical assistance was valuable. However, in principle, this assistance could have been delivered independently of fairtrade certification.

35. An impact assessment of DFID funding to the Fairtrade Foundation in 2005 demonstrated successes against objectives of expanding the range of fair-trade certified products, increasing consumer awareness of fair-trade and reducing reliance of the Foundation on external grant funding for its operational and promotional activities. Among the project outputs were agreement of fairtrade certification standards for seven new product categories, including wine, seed cotton and herbs and spices; the certification of 105 new producers groups and an increase in the number of certified inspectors. The project helped the Foundation increase its income from licensing to 69% of total operational and promotional costs.

36. The assessment also included a stakeholder review where the Foundation, FLO, and producer groups reviewed their experience of working together. Issues emerging included a desire on the part of producers to be more engaged in the development of standards, and a need to simplify and streamline the certification system and make it more user-friendly. Some of these issues are being taken up under the current DFID grant to the Foundation that is scheduled to run to end 2007.

37. The recent independent impact assessment of the Ethical Trade Initiative also highlighted the difficulties in measuring impacts on poverty but highlighted a number of positive social benefits (see paragraph 62).

38. A number of other European donors are also active supporters of fair and ethical trade, most placing it in the context of helping poor producers access markets and promoting corporate social responsibility. Several countries have supported public awareness raising campaigns and these could clearly have contributed to the growing public awareness of fair and ethical trade in Europe. Outside Europe, USAID has supported the Rainforest Alliance’s work on developing standards for sustainability that conserve wildlife and promote the well-being of workers and their communities. In January this year McDonald’s announced that they would be sourcing all their UK coffee from Rainforest Alliance-certified producers.
3.2 Challenges for fair and ethical trade in the market place

39. The debate about the efficacy of fair and ethical trade is growing.\(^{51}\) This has covered issues around the allocation of the premium, the potential size of the fair-trade market, the ability to reach the very poorest producers and the potential of the approach to mainstream benefits to a wider range of producers, notwithstanding the lack of evidence on poverty reduction impacts cited above. These are all issues that potentially affect the sustainability of fair and ethical trade in providing the types of benefits listed above to Southern producers.

40. There are a number of issues around the premiums charged to consumers for fair-trade-certified products (eg FLO, Rainforest Alliance). The popular understanding of fair trade, most notably conveyed by the media, focuses almost exclusively on the issue of “fair price”. This is most likely due to the intuitive appeal to the consumer of the idea that “we pay more they get more”. This understanding of fair trade has tended to over-simplify the impact and neglect its role in the organisational development of producer groups. Related to this is the amount of the price differential that actually reaches producers. Diseconomies of scale mean that businesses face higher unit processing, distribution and retail costs vis-à-vis their larger commercial competitors. In addition, they must pay the licence fee. As a result, the premium is never passed on entirely to the producer group.

41. The use of the premium also appears to be evolving. In some cases, the premium has financed the cooperatives’ technical and other organisational support of coffee producers’ activities. In the past, the premium was often distributed among members after administrative costs were discounted as part of individual income. More recently, FLO has encouraged organisations participating in fair trade to direct the premium towards social projects. While this can deliver fairly immediate, concrete benefits such as health posts and schools, there are questions about the sustainability of this use of a premium, for example when repairs are needed. In addition, while it can remove the need for governments to provide services in the short term, in the longer term it can provide an excuse for lack of government action.

42. When the premium is used in this way it also raises questions about the efficiency of transferring funds to farmers, because little of the mark-up is passed on to the farmer. Critics argue that it would be preferable and more efficient to provide direct transfers. It also raises the question of whether concerned consumers would be better off donating directly to development NGOs.

43. In order to scale up impact and make a significant contribution to attaining the MDGs, fair trade labelling organisations will need to reach relatively “marginal” producers. Although this does not appear to have been tested empirically, researchers argue that labelling organisations do not take the initiative to support the creation of new cooperatives for particularly poor people and do not intervene actively to help cooperatives that are weak and unable to satisfy labeling requirements.\(^{52}\) It is argued that instead they only accept cooperatives that are already strong and functioning successfully, that are ideally already managing their cooperatives’ technical and other organisational support of co-op members’ activities. In the past, the premium was often distributed among members after administrative costs were discounted as part of individual income. More recently, FLO has encouraged organisations participating in fair trade to direct the premium towards social projects. While this can deliver fairly immediate, concrete benefits such as health posts and schools, there are questions about the sustainability of this use of a premium, for example when repairs are needed. In addition, while it can remove the need for governments to provide services in the short term, in the longer term it can provide an excuse for lack of government action.

44. Although the market is expanding there still appear to be problems with supply and demand. Certified producer groups are not guaranteed a purchaser for their coffee. FLO estimated that in 2003, fair-trade coffee export capacity in Latin America, Africa, and Asia was roughly seven times greater than what was exported via fair trade. And case studies show that most cooperatives are able to sell only part of their output via fair trade channels. Whilst some of the advantages gained via participation in fair-trade supply chains, such as market contacts and greater understanding of international markets, are not purely related to the volume of fair-trade sales, other benefits are accrued in direct proportion to sales, including guaranteed prices, social premiums, long-term contracts, and low-interest credit.

45. There is some evidence\(^ {53}\) that fair-trade production can create dependency. There is growing recognition within the fair-trade movement of the need to become more market-oriented, helping producer groups develop new products and expand into new areas. This is particularly true for handicrafts, where changing fashions demand that suppliers adapt quickly to new customer tastes.

46. Fairtrade certification has been criticised for propping up the prices of agricultural commodities, which are low because of overproduction. By doing this, it is argued that the system encourages farmers to produce more of these commodities rather than diversifying into other crops and so depresses prices—“thus achieving, for most farmers, exactly the opposite of what the initiative is intended to do”.\(^ {54}\) Such arguments have been countered by FLO, who say that Fairtrade farmers’ groups frequently invest in developing their market knowledge, in building up their export or processing capability, or in diversification programmes, all of which require investment. However, the extent to which such diversification has been successful is not clear.

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\(^{51}\) For example, The Economist, 9 December 2006. Voting with your trolley: can you really change the world just by buying certain foods?


\(^{54}\) Economist, op cit.
4. Mainstreaming Fairness in Trading Relations

47. Fair and ethical trade initiatives have played an important role to date in raising awareness of international trading relations, and they have demonstrated impacts in improving the lives of poor producers in developing countries. But the above evidence suggests their scale of impact is limited, and to lift the millions of small producers out of poverty necessary to meet the MDGs a wider approach with greater involvement by the private sector is needed.

4.1 A greater role for the private sector

48. A notable success of fair and ethical trade schemes has been in increasing private sector engagement in the issues as a result of enhanced consumer awareness. DFID sees the key challenge facing fair and ethical trade organisations today as how to use the experience and knowledge gained to promote fundamental change in mainstream markets. This involves going beyond thinking solely about certification schemes and encouraging companies to think about fair and ethical principles in their mainstream procurement operations.

49. As mainstream manufacturers and service providers see “ethical trade” as a significant market trend, they play an important role in translating the idealistic expectations of consumers into practical, operational schemes. There is a danger of cooption, however, and many of the ethical trade organisations are seeking to work with the private sector to avoid this. The ETI is a step in this direction, with NGO, trade union and private sector stakeholders coming together to develop and implement a “best practice” approach to implementing labour standards.

50. The Ethical Trade Working Group of Defra’s Food Industry Sustainability Strategy (FISS), which DFID participates in, is also discussing this issue. The group brings together food retailers, processors and civil society groups to make recommendations on how the objectives in the FISS relating to ethical trade can be achieved. The group have agreed that promoting ethical trade goes beyond increasing the sales of fair and ethically labeled goods to influencing the sourcing and procurement practices of the industry. The Group is due to report to DEFRA ministers in the spring.

Q. What is the role of supermarkets, retailers and businesses in supporting ethical and fair trade production?

51. Retailers, in particular supermarkets, play a critical role in supporting fair and other forms of ethical trading relationships by making the products readily available to consumers. The dominance of supermarkets and the dependence of millions of people in developing countries on these buyers places considerable responsibility on retailers in developed countries. Their purchasing practices can have considerable influence over the livelihoods of producers in the South. Many companies recognise the responsibility this gives them, and the importance that some consumers place on how they respond to this responsibility, and have taken steps to address exploitative practices in their supply chains and develop codes of practice for their suppliers.

52. As profit-making entities, supermarkets and other retailers will usually only change their buying policies where they see that there is demand for this from consumers. Retailers increasingly are competing to advertise their ethical credentials as shoppers’ demand for organic and fairly traded goods increases. Mainstream companies and retailers have responded in several ways. Some retailers in the UK and Switzerland, for instance, have embraced Fairtrade as an integral part of their own brands:

- Marks & Spencer has recorded a double-digit increase in sales of its tea and coffee since switching to 100% Fairtrade certified in March 2005.
- The Co-op has switched all its chocolate to the ethically sourced brand.
- Multinational giants such as Nestlé and Procter & Gamble have launched Fairtrade coffees.

53. Not all companies have embraced Fairtrade. Because it requires above-market payments to producers, Fairtrade certification is an inherently more expensive way to introduce social responsibility into mainstream companies’ supply chains. As a result, some large companies have chosen to use other third-party labels on their products to assure consumers that they trade in a more responsible way than other companies.

54. In the coffee industry, the most important schemes are Utz Kapeh and Rainforest Alliance. Both have less consumer recognition than Fairtrade, yet their close alliance with multinational corporations may supplement their consumer-marketing efforts. Rainforest Alliance certifies coffee, bananas, citrus, cocoa, ferns, cut flowers, and tropical woods, which positions them to compete with Fairtrade. Though no minimum or guaranteed price is given to the farmer, Rainforest Alliance found that, on average, farmers meeting the Alliance’s standard can obtain up to 10% more for their produce in the market.56

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55 Food Industry Sustainability Strategy, Defra, 2006 www.defra.gov.uk/fiss
56 www.rainforest-alliance.org/
55. As an alternative, rather than adopt another third-party verification, large coffee and tea companies have publicised their existing industry-wide codes of conduct (or launched new schemes) in response to increased consumer concern about fair and ethical trade issues. In September 2004, Nestle, Sara Lee, Kraft and Tchibo, representing 40% of the world coffee-roasting market, signed a “Common Code for the Coffee Community” to improve working and environmental conditions on coffee farms. The code requires that producers pay minimum wages to workers, cease from using child labour, allow union membership, and follow international environmental standards. DFID, along with other donors, supported the development of the Common Code.

56. Similarly, tea industry giants such as Unilever, the Tetley Group and Sara Lee recently re-named their “Tea Sourcing Partnership”, a programme which aims to guarantee that tea estates in Asia and Africa comply with local labour laws and union agreements, the “Ethical Tea Partnership”. This initiative, which does not include union, NGO or smallholder participation in its governance structure, has increased promotion of its activities, most likely in response to success of other companies with Fairtrade teas. Neither of these industry codes requires minimum pricing or farmer and worker empowerment, but they show that the consumer interest in fair and ethical trade is forcing food companies to address labour and environmental conditions if they do not want to lose significant market share.

57. Cadbury Schweppes is a company that has not gone down the Fairtrade labeling route.57 It argues that Fairtrade works with farms that have access to good communications and warehousing facilities and can form co-operatives, but that the majority of cocoa farmers do not have access to this level of infrastructure as many are small family-owned operations in remote areas. Cadbury’s emphasises that Fairtrade is not the only way to ensure farmers receive a fair return for their crops and that it aims to help all cocoa farmers improve their standard of living by developing sustainable crops of quality beans that command a higher price. It also highlights various developmental programmes to assist farmers that it funds.

58. To summarise, innovative companies have experimented with the concept of “socially responsible trade” within their CSR and sustainability agendas. These initiatives may incorporate elements found within certified Fairtrade production, such as direct and/or long-term contracts with producers. But they do not necessarily share the objectives of Fairtrade with regard to either a floor price or enabling market access for disadvantaged producers. There have been criticisms of some of these initiatives as confusing the consumer, diluting the Fairtrade standard, or “greenwashing” to provide a fig leaf over injustices in mainstream business operations. However, it is apparent that certification schemes are unlikely to realistically provide the only means through which the terms under which farmers in the South supply the North can be improved. As a result DFID welcomes the wider engagement of buyers and retailers.

Q. How can trade unions help to ensure that the drive for cheaper produce does not undermine social and environmental standards in developing countries?

59. The Ethical Trading Initiative (ETI) provides a good example of how trade unions can have an impact on supporting social and environmental standards in developing countries. In the late 1990s, companies selling food and clothing to UK consumers were coming under increasing pressure—from trade unions, NGOs and consumers—to ensure decent working conditions for the people who produce the goods they sell. Such companies typically responded by adopting a code of practice setting out minimum labour standards that they expect their suppliers to comply with.

60. Many companies who adopted such codes soon found that they had neither the public credibility, nor the necessary experience and skills, to answer these questions alone. They realised they needed the backing of relevant civil society organisations, in particular of trade unions and NGOs with expertise in labour issues and overseas development. The ETI was set up in 1998 with support from DFID to bring the combined knowledge and influence of relevant NGOs and the international trade union movement, to help develop good practice on labour standards in the global supply chain.

61. The work of the ETI has shown that code implementation is most successful when it is backed up by local organisations such as trade unions and NGOs. Such organisations have unique local knowledge, influence and staying power to ensure that improvements in labour conditions are appropriate and sustained over time. However, in many developing countries, such local bodies tend to have very limited resources. As a result, it has often proved difficult to find appropriate organisations with the capacity to engage effectively with companies on code implementation issues.

62. A comprehensive assessment by the Institute of Development Studies of the impact of the ETI’s corporate members’ ethical trade activities on workers in their supply chains found that in members’ supply chains, which collectively account for over three million people worldwide, many workers are benefiting from a safer and healthier working environment, increased wages and reduced working hours. More workers are covered by national health and pension schemes and, importantly, fewer children are working in some parts of the supply chain.

57 See http://www.cadburyschweppes.com/EN/EnvironmentSociety/EthicalTrading/fair_trade.htm
63. The study also found that the activities of groups such as trade unions, NGOs and the media can contribute to the creation of a critical mass to press for change, whether this is to draw attention to poor labour practices, to support suppliers and workers in making improvements, or to strengthen labour law and/or its enforcement. It further found that worker organisation and the presence of active trade unions is clearly a critical determinant of labour practices. However, in many of the case studies undertaken, trade unions had difficulties organising workers due to resource constraints, management obstruction and/or worker disinterest, or had been weakened by job losses and pay cuts. DFID continues to support the ETI to address these issues and strengthen compliance. We recently signed a Public Partnership Agreement (PPA) with ETI for five years up to 2011.

Q. In an increasingly crowded ethical marketplace how can consumers be supported to distinguish between different fair trade brands, labels and codes?

64. In 2006 the European Parliament recognised this issue. They called on the Commission and Member States “. . . to take appropriate measures to ensure that consumers have access to all information they need in order to make informed choices; and believes that consumers must have the right to access quickly product information, which must be easily comprehensible and presented in a transparent way.” It also called on the Commission “. . . to liaise with the international fair trade movement in supporting clear and widely-applicable criteria against which consumer assurance schemes can be assessed, underpinning consumer confidence in such schemes and consolidating the Fair Trade product sectors”. While desirable, the difficulties in doing this are considerable and should not be underestimated, not least trying to identify a central definition of “ethical trade”, as initiatives are based on such a wide range of outputs. For example, the Ethical Trading Initiative (ETI) is based on private sector, civil society and trade union organisations working together to improve labour standards, whilst the Rainforest Alliance scheme is predominantly aimed at environmental goals.

65. In terms of the European Parliament’s call to member states to ensure consumers have access to information, as highlighted above, this is an issue that DFID has provided considerable support to through its grants to the Fairtrade Foundation, support to the ETI and engagement of Ministers on fair and ethical trade issues.

4.2 Role of donor support in mainstreaming fairness in trading relations

66. DFID is already involved in discussions with industry and fair and ethical trade agencies on how to learn from their trade experience and better incorporate these principles in mainstream supply chains. We envisage the following role for donor support:

— Help developing country producers meet changing market demand and bring sustainable improvements to their livelihoods;
— Catalyse improved trading relations for poor producers and employees in mainstream supply chains;
— Complement DFID programmes that tackle the wider problems of trade policy or market access for the poor; and
— Promote learning between the fair-trade movement, mainstream companies and donors.

67. DFID is developing partnerships with supermarkets, food brands, exporters and others involved in supplying the UK market to ensure their supply chains benefit poor people. Imports of fresh fruit and vegetables from the countries north of South Africa and south of the Sahara were worth £200 million in 2005. For farmers in Africa, this has been a success story: research estimates that almost a million rural African livelihoods depend at least partly on the international fruit and vegetable trade with the UK.

68. Working with the private sector was a recommendation of the Commission for Africa, and DFID’s agriculture policy makes a commitment to work in partnership with the food industry to ensure small-scale farmers can access our markets. The Commission for Africa considered that supermarket standards can lead to the exclusion of small-scale farmers and it has been in this area that DFID initiated work with supermarkets and others in the agrifood supply chain. In April 2003, the Secretary of State chaired a meeting with supermarkets and others to consider this. This meeting concluded that, while meeting the standards required by supermarkets can be expensive for African farmers, standards are essential to reassure supermarket customers and have had a positive impact on agricultural practices in Africa. DFID is supporting developing-country producers to negotiate with supermarkets on their standards.

69. DFID is working to encourage the private sector to make investments in innovative supply chains that deliver more development benefits to small scale farmers and farm workers (eg financial services, skills development, organisation). It is also delivering more information about those farmers to their customers and educating them about the development impacts of food procurement from Africa.
Q. Do existing government guidelines on procurement of ethical and fair trade products provide an enabling environment for the development of this market and the opportunities for producers?

70. There are no legal reasons why public authorities should not include fair and ethical trade criteria into their procurement practices. The WTO Agreement on Government Procurement or GPA, whose cornerstone relates to non-discrimination between suppliers, states that governments Parties to the Agreement are required to give the products, services and suppliers of any other Party to the Agreement treatment “no less favourable” than that they give to their domestic products, services and suppliers and not to discriminate among goods, services and suppliers of other Parties (Article III:1). However, the agreement is plurilateral and has only been ratified by 30 WTO members, including the EU. It allows for the use of environmental criteria and eco-labels that are not intended to “create unnecessary obstacles to international trade”. And it also clearly refers to “processes and methods of production” as part of the technical specifications that a procuring entity may require in a tender.

71. Current European procurement directives allow governments to decide to include social and environmental criteria in purchasing procedures. Similarly, the UK Office of Government Commerce guidelines do not prevent public bodies such as government departments, schools or local authorities from specifying fair and ethical goods being supplied as part of a supply contract. However, it has to be recognised that a budgetary trade-off will exist where there are significant price differentials between fair and ethical trade goods and conventional alternatives.

International Trade Department and Growth and Investment Group, DFID
February 2007

Memorandum submitted by Divine Chocolate, Trading Visions, Comic Relief and Kuapa Kokoo

Divine Chocolate (formerly The Day Chocolate Company) was founded in 1998 with the mission to improve the lives and opportunities of small-scale cocoa farmers in West Africa by establishing a dynamic, branded Fairtrade chocolate marketing company in the large UK chocolate market.

The company’s intermediate objectives are:

— To take a quality and affordable range of Fairtrade chocolate bars into the mainstream market.
— To raise awareness of Fairtrade issues among UK retailers, consumers of all age groups.
— To be highly visible and vocal in the chocolate sector and thereby act as a catalyst for change.
— To pay a Fairtrade price for all the cocoa used in products.

Divine is a private company limited by shares.

The Divine Chocolate and partner organisations would like to offer the following comments on the questions posed by the committee:

What has been the impact of donor funding for Fairtrade?

Although this was not strictly “grant” financing, it is worth noting what we regard it as the most significant contribution DFID has made to financing Divine Fairtrade chocolate. In 2000 DFID guaranteed a bank loan for £400,000 to The Day Chocolate Company as part of its poverty alleviation programme in Ghana. This was the first time this financial instrument has been used. It was a good example of joined up Government where DFID worked with the DTI small business unit to assess the risk and then signed off the Guarantee through the Ghana desk who then monitored it through an Independent Director on the Board. An impact assessment was also commissioned. (see L Ronchi: Monitoring Impact of Fairtrade Initiatives, Twin, November 2002). This is the first report. The impact assessment process is ongoing. For example, further evidence can be seen in “New Thinking in International Trade: A Case Study of The Day Chocolate Company, (Tranchell and Doherty, Journal of Sustainable Development, Issue 13, 2005)”.

The Guarantee, offered by DFID, has been enormously valuable:

— It enabled Divine Chocolate to access start-up finance at a competitive rate.
— It meant that the Farmer organisation in Ghana could own a significant share (33%) of the company, so that they would have board representation, a say in how the company is run and a share of any profit.
— It made other companies and organisations take Day seriously.
— It enabled a start up company to develop a relationship and a track record with a conventional commercial bank.

58 http://www.ogc.gov.uk/procurement_policy_and_the_eu.asp
Of these the question of ownership is most important. Divine chocolate delivers four different income streams to its owners in Ghana:

1. The price for cocoa used (which is the world price or $1.600 per ton, whichever is the greater) (2006, 1,145 tonnes used: $1,832,000).
3. Producer support and development spend which is used to ensure the integrity of the cocoa supply chain, and (2006: £125,000).
4. Dividends.

Over time the last of these will be the most important and the biggest. We regard our greatest achievement as being the creation of a company which it was possible for farmers to own although they did not have the capital to launch it. Using the funds guaranteed by DFID, we created a company which was one-third owned by cocoa farmers in Ghana. Today the Kuapa Kokoo Farmers Union owns 47%. In the year to 30 September 2006, Divine chocolate had turnover of £9 million and pre-tax profits of £611,000. That 47% is now worth a considerable amount.

It is worth noting that the guarantee did not cost DFID anything. Had the project failed, DFID may have carried the bill for £400,000. In the event we succeeded. The guarantee has now lapsed; DFID has no further liability and the company is thriving. It is worth noting also that HM Treasury is the single greatest beneficiary of Divine’s success. In the year to 30 September 2006 we paid net VAT of nearly £1.3 million and our tax bill for the year is £158,000.

As well as a financial success, we believe the guarantee to have been of considerable political importance, and we are pleased that the Prime Minister, the Chancellor and other government ministers continue to take a keen interest in our success.

How best can donors help to develop Fairtrade consumer markets in both developed and developing countries?

DFID makes an incredibly valuable contribution to developing Fairtrade consumer markets. In the UK, DFID’s Development Awareness Fund supports vital initiatives, which challenge public perceptions of poverty and the developing world, and help people understand how Fairtrade offers an effective and dignified solution. The partners, (Divine Chocolate, Comic Relief, Trading Visions and Kuapa Kokoo), applying successfully as a consortium, have received two rounds of Development Awareness Funding since 1999.

Through this funding we have been able to create and develop new markets for Fairtrade by delivering powerful education and awareness raising initiatives. These DAF funded activities have been especially focused on young people, enabling us to bring to market the first youth targeted Fairtrade product in the UK and educating young people to affect long term change in the consumer market for Fairtrade. Furthermore, we have consistently worked with Kuapa Kokoo to source content from Ghana, ensuring that our materials and resources are focused on the impact of Fairtrade on real people and communities. This forges a powerful link between producers and consumers, and offers a unique incentive for consumers to continuously support Fairtrade.

DFID’s support has enabled the project partners to develop a totally unique proposition on Fairtrade, inspiring people across the UK through the amazing true story of a farmer-owned Fairtrade chocolate company. Together, we have delivered pioneering Fairtrade education resources and campaigns targeting in-school and at-home learning and action. In brief, we have:

— created the first and only Fairtrade product for (and designed by) young people: the Dubble Fairtrade chocolate bar, now available in supermarkets and stores across the UK;
— developed award-winning Fairtrade teaching resources, used in over 17,000 schools, and undertaken other activities reaching thousands more young people and teachers; and
— created www.dubble.co.uk and Dubble Agents: the first online Fairtrade activist hub for young people with over 50,000 members and ongoing content sourced from Ghana, showing the impact of Fairtrade through stories of real people and their communities.

With DFID’s invaluable support, the partners have worked together to ensure that, not only is there a Fairtrade product available for young people, but that Fairtrade and the development context for Fairtrade products is prominent in the minds of young people, teachers and others across the UK. Dubble, Dubble Agents and the Pa Pa Paa Fairtrade teaching resources are established as uniquely accessible points of engagement with Fairtrade for children, young people and teachers across the UK.

The work of the partners in this area is ongoing and exciting developments continue. For example, Comic Relief’s Red Nose for Red Nose Day 2007 carries the Fairtrade Mark as it contains a “ChocPix” chocolate square, made with cocoa from Kuapa Kokoo. This will bring Fairtrade and the inspiring story of Kuapa Kokoo to the attention of the eight million people who will buy a Red Nose across the UK. Numerous awareness raising and education initiatives focused on Fairtrade are underway for Red Nose Day. For
example, an edition of the hugely popular “Charlie and Lola” children’s books, all about the story of Fairtrade chocolate, will be available. Such initiatives will have an incredibly broad reach across a wide spectrum of media, contributing significantly to the growth of new consumer markets for Fairtrade.

DFID’s continued support is vital to initiatives such as ours, which make development issues accessible, and allow people to identify where they can affect long lasting social change through the tangible step of choosing Fairtrade products. Fairtrade can also be the gateway to further learning and understanding about the developing world and the role we can all play as global citizens.

**Is there a role for donors in helping to develop the interests of producer communities in developing countries (for example, the Ethiopian coffee trademark dispute)?**

Fairtrade producer organisations often have to do business in incredibly challenging circumstances, coping with a lack of adequate and affordable infrastructure in vital areas such as communications, transport and access to affordable appropriate finance. Donors have a very valuable role to play supporting developing country governments and stakeholders to develop more conducive environments and infrastructures. Crucially, donors have the opportunity to pioneer innovative solutions, best developed to meet the needs of Fairtrade enterprises, seeking to use trade to sustainably alleviate poverty in their communities.

Kuapa Kokoo in Ghana offers an example of where donors could play such a role. Three of the biggest challenges for Kuapa in managing and growing their business are communications, transport and finance. From a head office in Kumasi, Ghana’s second city, Kuapa Kokoo work across 28 area offices and many more depots. The co-operative has a membership of over 20,000 farmers in 1,200 village societies, spread across an enormous geographical area.

Communications on this scale are incredibly challenging without adequate infrastructure. For example, a lack of affordable and reliable broadband internet providers in Ghana has made finding a cost effective internet solution, suitable for an organisation of this scale very difficult. This hugely impacts the way Kuapa’s business has to function on a daily basis. For example, some vital reporting processes from the area offices into head office are undertaken manually, with high staff travel time attached. Similarly, very poor road conditions across much of the country make traveling and transporting cocoa around the country slow and, at times, dangerous.

It is in the interests of Fairtrade producer organisations and their communities for donors to work in partnership with them and tackle these very basic and vital issues of infrastructure, in order that their businesses may succeed and deliver on their mission to improve the livelihoods of farmers.

**Do existing government guidelines on procurement of ethical and Fairtrade products provide an enabling environment for the development of this market and the opportunities for producers?**

The support for Fairtrade shown by Government departments is extremely positive. By implementing procurement policies supporting Fairtrade they set an excellent example, encouraging other organizations, local government and businesses to do the same, creating pull through of Fairtrade products.

The impact of the recent DFES guidelines on food in schools on Fairtrade should be considered. Prohibiting chocolate and other Fairtrade products in schools limits a significant route to market for Fairtrade brands such as Dubble and Divine, a market which, as outlined above, we have spent several years developing and growing. The danger is that existing markets are cannibalised.

**What is the role of supermarkets, retailers and businesses in supporting ethical and Fairtrade production?**

Supermarkets, retailers and businesses are increasing embracing Fairtrade, stocking a wider range of goods and developing own-label Fairtrade products. This is a welcome development, if it leads to the development of new consumer markets and new markets for Fairtrade producers. The danger is that existing markets are cannibalised.

Supermarkets, retailers and businesses could work to create and develop new markets in the following ways:

- Making explicit long term commitments to dignified trading relationships with producers.
- Growing the market for Fairtrade producer organisations, for example by supporting producers to become Fairtrade certified.
- Commit to ensuring the commercial success of new Fairtrade products that they bring to market, even where short term challenges occur.
- Making a long term commitment to educating their customers about Fairtrade.
- Embracing the Fairtrade Mark as an independently accredited and trusted guarantee of Fairtrade, making it easier for the consumers to make satisfied, informed choices about what to buy, in an environment where there are several claims to “Fairtrade” to decipher between.
Allocating resources to promote Fairtrade products at the point of purchase, which is so vital in influencing consumer choice and ongoing behaviour. Many supermarkets and retailers do commit resources to do this and promote Fairtrade in store, especially during Fairtrade Fortnight. However, the vast majority of investment in this activity comes from Fairtrade product suppliers themselves, who pay for promotional space and subsidise consumer offers.

In an increasingly crowded ethical marketplace how can consumers be supported to distinguish between different Fairtrade brands, labels and codes?

The Fairtrade Mark offers an independently certified guarantee to the consumer that producers have received a fair deal. In an increasingly crowded ethical marketplace, this independent guarantee offered by the Fairtrade Mark has a critical role to play, allowing customers to be satisfied that the Fairtrade claims on the product have been independently checked according to a clear, consistent and transparent set of criteria.

In addition to being satisfied that Fairtrade standards are independently verified, consumers need to be educated and supported to make informed choices and change their long term behaviour. We have made this part of our mission, undertaking a large amount of ongoing education and awareness raising work, as outlined above. Through and increased understanding of the powerful impact of Fairtrade on farmers and their communities, consumers will be encouraged to choose Fairtrade consistently. They will also be encouraged to analyse other areas of their behaviour and consumption and the role they can play as global citizens.

Finally, in a crowded marketplace, new models of ownership offer a significant point of difference for fairly or ethically traded goods, and signify an even better deal for producer organisations. Divine chocolate have pioneered a model of farmer ownership and embedded this into our brand and communications. Our message is that the farmers of Kuapa Kokoo not only get a fair deal for the cocoa, through the Fairtrade system, but that they share in the profits of the business and have participate in determining how the company is run.

The Fairtrade Mark is going from strength to strength and consumers are becoming increasingly aware of the challenges facing small scale commodity farmers. The Fairtrade Mark offers an independently certified guarantee for consumers in a crowded market place. As consumer understanding of the context for Fairtrade improves we hope consumers will push businesses to offer even better and more equitable partnerships with producers. Farmer ownership offers an incredibly powerful way to do this.

February 2007

Supplementary memorandum submitted by Divine Chocolate Ltd, Kuapa Kokoo, Trading Visions and Comic Relief

Having previously submitted written and oral evidence, we would like to offer some follow-up comments and recommendations, in response to issues raised at the evidence sessions and highlighting our key recommendations.

In the light of the considerable and suitable benefits that Fairtrade has delivered for millions of the poorest producers in the world it is entirely appropriate that DFID continues to support the growth of Fairtrade in the UK. The evidence to date has shown that that support has been very effective in the following areas:

— Supporting a start up company, Divine Chocolate, with a loan guarantee thus enabling cocoa farmers in Ghana to own a significant proportion of a very successful company.
— Raising awareness among the British population, including children, students, teachers and consumers of all ages, creating a popular movement for development issues and a growing consumer market for the Fairtrade.
— Supporting the development of standards for Fairtrade supply chains.
— Supporting the establishment of new suppliers and commodities.

We would particularly like to offer a response to the important question posed by the committee of whether industry should invest in the Fairtrade supply chains. Clearly they should, as Fairtrade has the double benefit of offering a successful marketing strategy and reassurance that supply chains are sustainable and decent. We would also strongly suggest however that any standards developed belong to the whole Fairtrade movement, including producer groups, and not just to the specific outlets who engage in developing them. Matching industry investment in developing standards would be an effective mechanism for DFID to make sure that the outputs are accessible to others, so other suppliers can use these supply chains. Supply chains developed through such partnerships would be more open, transparent and accountable. To ensure this they should be developed in full consultation with the relevant producers. Ownership of the certification system and supply chains must also extend to producers, ensuring that meaningful, long term participation by producers is secured.
Considering our own experience of where DFID’s support has been most beneficial, we would like to suggest that in future, DFID has a particular role to play in:

— Building new markets.
— Keeping producer impact and participation at centre of Fairtrade.

BUILDING NEW MARKETS

Our previous evidence outlines in detail how a loan guarantee from DFID enabled Divine to embark on a unique farmer owned Fairtrade proposition and build the market for a successful mainstream chocolate brand in the UK, with ongoing education and public awareness raising also support by DFID Development Awareness funding. Both these types of investments have undoubtedly represented incredibly good value for money for DFID. Their outputs have contributed not only to a new market for Fairtrade chocolate but built the market for Fairtrade generally among the UK population. We would suggest the UK government and DFID should work with private sector partners to encourage and enable them to build new markets, engaging them to making a long term commitment to work in partnership with producers and educate their customers about the impact of Fairtrade.

Securing this long term commitment to sustained involvement in Fairtrade by businesses will require embedding it more deeply into operational practice. At present there is a disconnect. Supermarket buyers, for example, are only assessed on their financial performance. In out experience this makes achieving initial listings particularly difficult. It also arguably makes it difficult for them to pursue Fairtrade strategies which don’t achieve immediate commercial success, within their standard operational terms. DFID could play a role, in their engagement with big business, retail and manufacturing, in suggesting that corporate responsibility extends to the operational practices of the institution and doesn’t just remain as a public stated corporate objective, squeezed out by other internal pressures focussed on short term success.

KEEPING PRODUCER IMPACT AT THE HEART OF FAIRTRADE

DFID has a particular role to play in this and should support business models, certification systems and awareness raising activities which prioritise this concern:

— **Pioneering business models**: The Divine-Kuapa partnership shows what extraordinary impact is possible. Such genuine partnerships make Fairtrade more sustainable, adding huge value to the brand and ensuring Fairtrade becomes part of the culture and operational practices of an organisation.

— **Certification systems and supply chain development**: As we have outlined above, it is crucial that producer participation and ownership is a key priority here. This is important, not only from the point of view of developing relevant systems which deliver real impact on the ground but also from the point of view of creating platforms and forums for third world stakeholders, to participate in broader discussions about international trade and development.

— **Public awareness raising**: As outlined in our previous evidence, our education work has brought cocoa farmer perspectives to the UK public in a highly accessible and engaging way. We would urge continued significant investment in this kind of work, which not only informs the public about Fairtrade and the part they can play, but brings about the kind of climate which makes initiatives like Make Poverty History possible. We would encourage DFID to continue funding a diverse range of organisations in order to reach a broad range of audiences and ensure resources and efforts are maximised through the networks.

Finally, we would like to reiterate the following points to the committee:

— **The importance of continuing to invest in in-country infrastructure and capacity building**, in order that producer organisations can achieve maximum benefit from the growing opportunity offered by Fairtrade and have meaningful participation and ownership in it’s development.

— **The importance of continuing to maximise the opportunity of consumer awareness of the Fairtrade Mark**. Through a diverse range of stakeholders DFID has a key role to play in supporting public awareness and understanding of Fairtrade, which is a critical gateway to greater understanding of the developing world and a powerful catalyst for changing attitudes and actions.

— **The importance of engaging with industry initiatives**, such as the ICI (International Cocoa Initiative), which seek to tackle the challenges faced by third world producers. DFID have a key role to play here, in calling industry to account and opening such initiatives to external and expert scrutiny.

Finally we would welcome continued consultation. We have greatly valued the opportunity to participate in this inquiry and offer our own experience of DFID’s invaluable support. It has been particularly pleasing to participate alongside our partners, Kuapa Kokoo. Their participation in the inquiry and in other national
and international arenas has been possible because of a unique, ground-breaking, private sector initiative, with the interests and future of cocoa farmers at its heart. We hope the UK government and DFID will continue to support such pioneering models, prioritising producer participation and ownership.

April 2007

Memorandum submitted by the Fairtrade Foundation

EXECUTIVE SUMMARY

The Fairtrade Foundation has received institutional funding from a range of donors which has provided vital support in driving forward the Fairtrade movement both in the UK and internationally. It has enabled the Fairtrade Foundation to invest in creating a unique partnership with producers, NGOs, companies and retailers in order to create more opportunities for more farmers and workers in more developing countries to participate in Fairtrade.

With even the comparatively modest amounts of donor funding that it has received, the Fairtrade Foundation has been able to lift Fairtrade to a new level in the UK market, outperforming all its agreed objectives. 50% of the public now recognise the FAIRTRADE Mark and sales are growing by over 40% year-on-year. Currently the international Fairtrade Labelling system spans almost 80 countries, working with 580 producer partners, representing over five million people—farmers, workers and their families—from 58 countries and across 21 Fairtrade markets in Europe, North America, Australia, New Zealand, Japan and Mexico. The Foundation is working with over 262 licensees, covering all of the major supermarkets, many independent stores, wholesalers and catering companies, offering over 2,500 products to the public in the UK alone.

Following the pioneering work of the 100% Fairtrade companies, more and more companies and retailers are deepening their engagement with and commitment to Fairtrade. The Foundation encourages all retailers to: incorporate Fairtrade into their core strategies and invest in staff training to support this; stock as many Fairtrade certified products as possible; switch as many of their product lines to 100% Fairtrade as possible; and resource sufficient marketing materials, from advertising to “point of sale” to inform consumers about their Fairtrade offering. Beyond this, retailers and companies should also do more to promote and market the vision and the mission which underpin the Fairtrade movement.

Independent academic studies as well as mountains of anecdotal evidence demonstrate that Fairtrade is having a positive developmental effect for farmers, workers and their families, for their organisations and their communities too. What they have in common is that Fairtrade has supported their organisational democracy and transparency and personal participation and empowerment. To give just one example from thousands, cotton producers from the Dougoroukoroni cooperative in Mali chose to spend their first Fairtrade premium payment on building a small two-room schoolhouse. The new sense of empowerment amongst members engendered by their engagement in Fairtrade meant that they then felt confident enough to negotiate with the local government to ensure that they lived up to their responsibilities. The result—a brand new school for approximately 160 pupils funded jointly by the local government and the cooperative.

The developments of recent years are in line with the Foundation’s vision of making Fairtrade the “norm”, and it believes that in 2007 Fairtrade is at a watershed. With major strategic funding, the Foundation has the opportunity to mainstream Fairtrade on a major scale. What is needed at this crucial turning point is substantial and strategic donor investment in order to ensure that the significant market development opportunities achieved in the North can be maximised for the benefit of producers and workers in developing countries. The Foundation believes that the scale of the global investment needs to be in the order of £50 million over five years, particularly in order to develop the infrastructure for Fairtrade in the South so that more farmers in more countries can benefit from Fairtrade. One option would be to extend DFID’s programme of long-term Partnership Programme Agreements to the Fairtrade Foundation to enable us to work strategically together to achieve our shared objectives of promoting greater participation in, and benefit from, international trade by poor people and countries.

ABOUT THE FAIRTRADE FOUNDATION

The Fairtrade Foundation is Britain’s leading independent authority on Fairtrade. It was set up in 1992 by five of the country’s leading international development NGOs—CAFOD, Christian Aid, Oxfam, Traidcraft Exchange and the World Development Movement—which were later joined by the National Federation of Women’s Institutes. Membership has now expanded to include 13 civil society organisations that support the Foundation’s mission and can contribute to its work in promoting Fairtrade to the public.

59 The 13 members of the Fairtrade Foundation are currently Banana Link, CAFOD, Christian Aid, Methodist Relief and Development Fund, National Federation of Women’s Institutes, Nicaragua Solidarity Campaign, Oxfam, People & Planet, Shared Interest Foundation, Scottish Catholic International Aid Fund, Traidcraft Exchange, United Reform Church and the World Development Movement.
The Foundation is a registered not-for-profit organisation, with a mission to improve the lives of poor and marginalised farmers and workers in developing countries by promoting fairer forms of trade. The Foundation is the UK member of Fairtrade Labelling Organisations International (FLO) that sets global Fairtrade standards with the participation of key stakeholders including producers and commercial partners and monitors against these standards. Currently FLO spans almost 80 countries, working with 580 producer partners from 58 countries and across 21 Fairtrade markets in Europe, North America, Australia, New Zealand, Mexico and Japan.

The Foundation licenses the FAIRTRADE Mark, an independent certification label, to products that meet the international FLO standards set for producers, their organizations and the traders who deal with Fairtrade products. It also builds awareness of Fairtrade amongst consumers so they can make informed decisions about their purchasing practices, and engages with retailers and other companies to enable them to offer their customers a wide choice of Fairtrade labelled products. Currently the Foundation is working with over 262 licensees, covering all of the major supermarket retailers, many independent stores, wholesalers and catering companies, offering over 2,500 products to the public.

1. What has been the impact of donor funding for Fairtrade?

1.1 Over its 12-year history, the Fairtrade Foundation has received institutional funding from a range of donors, which has provided vital support in driving forward the Fairtrade movement both in the UK and internationally. These donors (see Appendix 1 for further details) include:

- **DFID**—has provided grants since 1999 totalling approximately £1.8 million for a variety of activities including public awareness-raising through the Fairtrade Towns initiative and in schools, new product development and promoting Fairtrade in the “out of home” sector.

- **Comic Relief**—has provided funding of £250,000 over four years specifically to extend the benefits of Fairtrade to African producer organisations and to expand the range of Fairtrade products from Africa.

- **European Commission**—the Fairtrade Foundation, along with its partners Max Havelaar France and Max Havelaar Belgium, received €355,683 to raise awareness and deepen understanding of Fairtrade amongst new audiences across Europe between 2006 and 2009.

1.2 The Foundation has also received additional funding from a range of Trusts and Foundations. The impact of this funding has been seen in three core areas as described below.

1.3 **Impact on the public:** Donor funding has been absolutely critical in enabling the Fairtrade Foundation to invest in creating market demand for Fairtrade and has thereby brought about a rapid expansion in opportunities for producer groups to sell into the UK. As a direct result of its donor grants, the Foundation has been able to mount a vigorous campaign to raise public awareness of the FAIRTRADE Mark resulting in a considerable expansion in consumer demand. Annual poll findings demonstrate that 52% of the public now rate the independent guarantee of the FAIRTRADE Mark as “fairly” or “very” important to them. Independent research commissioned by the NGO network BOND in February 2006 also found that 87% of the public were aware of Fair Trade (see question 7 for further details).

1.4 This awareness has translated into a sales value of £196 million for Fairtrade products in the UK in 2005, signifying growth of over 1,000% since 1998. Since 2003, the rate of growth in sales has been 40% year-on-year, and MINTEL estimated in their 2006 report “Attitudes to Ethical Foods in the UK” that at current trends, the sales value of Fairtrade products in the UK would exceed £230 million by the end of 2006. It described Fairtrade as the “king of the crop” in terms of sales growth in the ethical foods market. What is more, MINTEL predicted that Fairtrade will see a further 138% growth over the next five years in the UK alone, with sales crashing through the half billion pound mark (£547 million) by 2011.

1.5 The market penetration of Fairtrade is also high: in 2005, 42% of all households purchased a Fairtrade certified product at least once, and this figure is rising rapidly. Fairtrade sales now account for a stunning 20% of the roast and ground coffee market in the UK, although reaching only around 5% of the overall coffee market to date. This snapshot of the coffee market demonstrates how much the Fairtrade movement has achieved to date, its potential to transform markets if the opportunities that exist can be grasped and also how far the movement still has to go to take Fairtrade to the next level. Hence the vital importance of continuing to generate significant amounts of strategic funding.

1.6 The growth in public awareness of Fairtrade has enabled the Foundation to take the complex, distant issues of trade, development and poverty outside of their usual audience and into the mass market. Fairtrade makes these issues accessible and empowering for the general public because they can do something in their everyday lives to create positive change. Fairtrade provides an alternative, open to everyone, which goes beyond dropping pennies in collecting tins.

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1.7 Impact on business: The growth in public awareness and consumer demand for Fairtrade certified products, and consequent rising expectations, has led to an explosion of commercial interest in Fairtrade. Fairtrade labelling with independent verification offers a structure with rules by which companies can engage in the complex tasks of making trade work for the poor. The Foundation has strategically targeted and worked with businesses keen to enter into Fairtrade to ensure that they too understand its developmental objectives, in terms of improving the position of marginalised farmers and workers and their ability to compete more effectively in international markets. Again, the Foundation’s capacity to respond to this business interest has been facilitated by the grant funding it has received. However, the Foundation is unable to ensure that all the current opportunities emerging in the business sector are fulfilled without additional funding.

1.8 The number of companies licensed to sell products with the FAIRTRADE Mark currently stands at 262, an increase of 24% since 2005. The pioneering 100% Fairtrade companies and alternative trading organisations have led the way in growing the Fairtrade market and as a result have seen a massive increase in their sales. Many of these companies can now be considered mainstream, for example, Cafedirect is 4th largest roast and ground coffee brand in the UK. These companies are now joined by a wide and expanding range of companies from across the food and non-food sectors many of whom are, every year, increasing the proportion of products they sell as Fairtrade.

1.9 The Foundation has also worked to ensure strategic engagement in Fairtrade from across the retail sector covering the small independents, catering and wholesale sectors. This has lead to a number of long-term and significant commitments by major retailers to Fairtrade:

- In 2003, in a groundbreaking move, the Co-op switched all its own-label coffee and block chocolate to Fairtrade.
- In March 2006, Marks & Spencer switched all of its coffee and tea to Fairtrade, enabling over 30 new producer organisations to enter into Fairtrade and making significant changes to volumes, values and positioning of Fairtrade.
- Sainsbury’s announced in December 2006 its commitment to switch all of its bananas to Fairtrade. This move, when completed will more than double the volume of Fairtrade bananas bought by Britain’s shoppers, increasing the Fairtrade share of the banana market to some 16%. It is expected to generate an estimated £4 million a year in Fairtrade premiums for the growers and their communities.
- All Caribbean bananas at Waitrose carry the FAIRTRADE Mark and it has also committed to converting their entire banana offering to Fairtrade.
- Approximately a quarter of brazil nuts in Tesco supermarkets are now sourced from Fairtrade certified producers in Bolivia for whom the market access has been a lifeline, while Asda has been driving forward the market for Fairtrade fresh fruit such as pineapples from smallholders in Ghana.

1.10 These switches are in line with the Foundation’s strategic plan to engage with companies to create new opportunities and consolidate markets for more and more producers, and its vision of making Fairtrade the “norm”. They demonstrate that the Foundation can encourage companies to move increasingly from statutory compliance with Fairtrade standards to a deeper commitment to the spirit of Fairtrade.

1.11 The Grocer noted recently: “2006 will go down in history as a time when the importance of price waned and healthy and ethically sound food became the battle ground.” The rise of Fairtrade is also having a wider impact upon public expectations of how companies should trade with their partners in developing countries—it is no longer acceptable for companies to turn a blind eye to poor practice.

1.12 In 2001, the Foundation also took a strategic decision, enabled by donor funding, to expand the product range and so allow more producers to enter the system. The range of Fairtrade certified products available has grown significantly—in 2003 there were around 150 products certified by the Foundation; in 2007 over 2,500 products are available across a range of food and non-food categories, from Fairtrade cotton, nuts and rice to vanilla and grapes. Again these figures underline the Foundation’s ability to deliver remarkable results from small amounts of donor finance—with long-term impacts for the farmers groups involved.

1.13 These impacts on business simply would not have been possible without the external funding that the Fairtrade Foundation has received. It should be further noted that to leverage these changes and retain its current position and momentum, the Foundation has had to work on a very small cost-base in very competitive environments. As a point of comparison, any major brand launching even a new sub-brand would expect to spend £10–15 million in advertising and marketing to the public. The Fairtrade Foundation believes that recent developments represent a turning point in the growth of the Fairtrade movement and that with additional strategic funding in place, the opportunity to mainstream Fairtrade on a major scale is within reach.

1.14 Impact on producers: The dramatic market expansion of Fairtrade has drawn an enormous number of new producers into the system, particularly over the past five years, with the current total now standing at 580 certified producer organizations representing over five million people—farmers, workers and their
families—from 58 producing countries. There are now over 350 groups supplying the UK market alone—many representing thousands of farmers, for example in the Windwards, 3,600 farmers are Fairtrade certified, 90% of all banana farmers in the islands.

1.15 The targeted donor funding that the Fairtrade Foundation has received has particularly enabled it to make a radical difference to the ability of producer groups from Africa to access Fairtrade markets. The number of African Fairtrade certified organisations rose from 42 in 12 countries in 2002 to 164 organisations from 23 countries by the end of 2006—an increase of 290%. The opportunities for different African producers able to access the Fairtrade system have also widened considerably. In 2002, producers were largely based in coffee and tea, the major traditional agricultural commodity crops. Now, African producers of flowers, dried and fresh fruit, nuts, cotton and wine, to name just a few, are able to benefit from their access to Fairtrade markets (see Appendix 3).

1.16 This rate of growth in the number of FLO certified producers globally is expected to continue, with FLO expecting at least 100 new groups to enter Fairtrade annually, reaching a total of over 1,100 certified groups by 2012. However, the demand from producers is of course increasing and the Foundation would like to scale up further.

1.17 Independent academic studies as well as anecdotal evidence have demonstrated that Fairtrade is indeed having a positive developmental impact upon producer partners in developing countries. There are thousands of impact stories from thousands of Fairtrade producers, each of them with a different focus depending on the needs and requirements of the producer and their organisation group. What they have in common is that Fairtrade has supported them to develop their democracy, transparency, participation and empowerment.

1.18 Independent research has proposed that the direct and indirect impacts of Fairtrade are mediated in four ways:

- Through the trading standards (via the minimum price, Fairtrade premium, pre-financing and long-term trading relationships). FLO estimates that in 2005, the Fairtrade benefits to producers amounting to around €80 million in terms of the Fairtrade minimum price and premium.

- Through access to markets to sell their products and the organisational support that is often provided by companies engaging in Fairtrade.

- Through the organisation that is at the heart of the producer standards (via organisational change made to meet minimum standards for certification and progress standards for continuous improvement). The strengthening of farmers’ organisations is a key means for farmers to change their position in the supply chain and for workers to organise into trades unions. For example, in Kenya, the Kenyan Plantation and Agricultural Workers Union (KPAWU) was able to work with flower farms to organise workers and negotiate a collective bargaining agreement directly as a result of the decision to engage with Fairtrade.

- Through the networking opportunities that involvement in Fairtrade can bring such as the Africa Fairtrade Network, the Network of Asian Producers and the Coordinadora of Latin American and Caribbean producers.

1.19 The impacts of Fairtrade for small holders and workers are experienced at three levels, examples of which are described below:

- **Producer and family**—In Costa Rica, the collapse in coffee prices in the late 1990s forced many smallholders to sell up and move to the cities in search of work. Many of these farmers can be seen in the cities sleeping rough or living in ghettos, their children sucked into drugs, gangs, crime and prostitution. This has not been the case for members of the Coocafé cooperative. According to Gerardo Camacho, a Coocafé member, “The Fairtrade price allows us to survive as coffee farmers. It covers our costs of production, lets us send our kids to school, buy clothes and keep a roof over our heads.” Empowerment is at the heart of the Fairtrade system and both producer organisations as well as individual farmers reap the benefit. Arturo Gomez, a banana farmer from the Costa Rican organisation, Cooptrabasur noted: “Before I was someone that took a box and loaded it onto a train. That was my only responsibility. I was just a farmer, who was an intermediary. In this new system I have become an international business man.”

- **Producer organisation**—The reputation of Ugandan coffee suffered following liberalisation of the coffee industry. The Gumutindo Co-operative, supported by Fairtrade and in particular its relationship with Cafédirect, has invested in agricultural training, organic conversion and improved processing methods to raise the quality of its coffee. Buyers are now knocking on the cooperative’s door and farmers are queuing up to join the organisation. Cotton producers from the Dougoroukoroni cooperative in Mali chose to spend their first Fairtrade premium payment on building a small two-room schoolhouse. The new sense of empowerment amongst members engendered by their engagement in Fairtrade meant that they then felt confident enough to negotiate with the local government to ensure that they lived up to their responsibilities. The result—a brand new school for approximately 160 pupils funded jointly by the local government and the cooperative.
1.20 An early study of coffee producers in Uganda and Tanzania\textsuperscript{64} found that Fairtrade had brought a range of benefits including opening the gates for the cooperatives to access export markets and has improved access to coffee market information. The same study also found that it was only because of the higher Fairtrade price and Fairtrade premium that some cooperatives were able to survive the collapse in coffee market prices in 2001 (see Appendix 4).

1.21 Another study of the Ghanaian cocoa-producing group, Kuapa Kokoo,\textsuperscript{62} found that the community projects funded through the Fairtrade premium were having a development impact upon the wider community as well as Kuapa members. For example, over 100,000 people in the community benefited from free medical attention and prescriptions, and a school building project funded by the premium had “emphatically improved pupil attendance and health and the quality of education.”

1.22 A more recent study of the Heiveld Rooibus Tea Cooperative in South Africa\textsuperscript{63} found that Fairtrade was playing a critical role in its success by providing it with access to a high value market and supportive relationships with a network of buyers as well as direct financial assistance for infrastructure and business development. As a result, Heiveld was a stronger and more sustainable business and organisation that in turn provided a range of benefits to the local community. These ranged from increased incomes and employment opportunities, to the development of a greater sense of community and individual self-worth.

1.23 Ongoing monitoring and evaluation of the developmental impact of Fairtrade is crucial to both improving the operational effectiveness of the FLO system as well as ensuring the credibility of Fairtrade in the eyes of the public. The Fairtrade Foundation would welcome donor funding that enables it to invest effectively in this activity.

1.24 The evidence above demonstrates that, even with the comparatively modest amounts of donor funding that it has received, the Foundation has been able to lift Fairtrade to a new level in the UK market, outperforming all key performance indicators and demonstrating the Foundation’s effectiveness. The success of Fairtrade in meeting its aims of going from a niche market to the mainstream could not have been imagined even five years ago and it simply would not have been possible without the donor funding that the Foundation has received, particularly in its early years. However, such rapid growth, the increased demand for more and new products, the desire of millions more farmers to join Fairtrade, and the need to strengthen Fairtrade systems have brought with them many challenges for the Fairtrade movement which need to be further resourced and tackled effectively in order to ensure continued success.

1.25 The Fairtrade Foundation, and indeed the wider FLO network, is committed to financial sustainability, which is achievable given the licence fee mechanism (the charge paid by companies for use of the Mark) that is inbuilt into the system. In the UK, the Foundation has already reached its target of 75% of income derived from licence fees. However, the Foundation does not believe that the international system should ever become entirely reliant upon income from companies: it must maintain its independence; it must maintain its focus on working with the most disadvantaged producers and not just those who can bring in finance; it needs to be able to make the substantial investments into new products areas required. It would not be commercially feasible to ask companies already selling Fairtrade certified products, and so paying a higher commodity price as well paying for certification costs, to also contribute to future investment costs especially ones which may be irrelevant to their own commercial interests. For example, Fairtrade coffee companies competing in a cut-throat market could not also be expected to pay for work on, for example, Fairtrade lemon grass or cinnamon, or for the development of Fairtrade in a new country such as Sierra Leone—even though both those initiatives would indeed be priorities in terms of the Foundation’s goals of poverty reduction.

1.26 Aid for Fairtrade is entirely consistent with DFID’s stated aims of promoting greater participation in international trade by poor people and countries, increasing the benefits and minimising the costs of international trade to the poor, and building producers’ capacity to participate in trade.\textsuperscript{65} It therefore seems anomalous that there has been pressure from DFID for the Fairtrade Foundation to be financially sustainable after just 12 years. DFID’s programme of long-term Partnership Programme Agreements (PPA) with a number of civil society organizations provide a successful model of how the government and the Fairtrade Foundation, together with its international partners, could work together to achieve our common objectives. A PPA would allow future funding to be based on a long-term shared strategic vision and ensure the right level of investment in developing countries.


\textsuperscript{63} Smith, S 2006. Fairtrade Foundation Reflect and Review.

1.27 As a comparison, Government investment in enabling UK farmers to switch to organic production has been in the region of £150 million over the last 10 years. Poor farmers in developing countries likewise need support to overcome the obstacles to selling export-quality products and meeting Fairtrade standards in order to switch to Fairtrade and gain the market access and many other opportunities Fairtrade offers.

1.28 What is needed at this crucial turning point is substantial and strategic donor investment in order to ensure that the significant market development opportunities achieved in the North can be maximised for the benefit of producers and workers in developing countries. The Foundation believes that the scale of the global investment needs to be in the order of £50 million over five years, particularly in order to develop the infrastructure in the South. It is currently engaged in discussions with DfID and other national governments for a major strategic funding package to support this effort, either through a PPA or some other mechanism.

2. How best can donors help to develop fair trade consumer markets in both developed and developing countries?

2.1 Developing Northern markets: The strategy pursued by the Fairtrade Foundation in developing the UK consumer market has had two key elements: firstly increasing the demand for Fairtrade certified products by raising public awareness and understanding of Fairtrade and the issues surrounding poor farmers and their dependence on commodity crops; and secondly ensuring companies and retailers are offering a range of products so that public demand can be successfully met and that producers can sell more.

2.2 The success of this awareness-raising strategy is rooted in the way the Foundation has sought to connect with consumers through a wide coalition of like-minded organisations. Working with its 13 members, along with trade unions, universities, schools and faith groups as well as companies and retailers offering Fairtrade, the Foundation has been able to develop what has been described by journalist John Vidal as “one of the fastest growing grassroots social movements in Britain,” reaching out to a wide cross-section of the public.

2.3 The Fairtrade Towns campaign has particularly caught the imagination of the public and generated its own momentum, successfully taking awareness of Fairtrade to the heart of local communities. It involves local activists engaging with all sectors of their community—from the local mayor to the local mosque, from the local hotel to the local hairdresser—to spread awareness and understanding of Fairtrade, in order to raise local business awareness and retail sales and influence procurement by public and private sector organisations. The Towns campaign has also proved to be a successful way of generating interest in and debate of development issues. As of February 2007, there are 222 towns that have been awarded Fairtrade status, with at least a further 250 Towns working towards that goal. There are also Fairtrade Universities (41 so far declared), Faith Groups (over 3,000 churches, mosques and synagogues) and Schools campaigns.

2.4 These campaigns and activities have been supplemented with key press and media activity as well as production of direct consumer-facing information. As already stated, donor funding has been critical in this effort and has been important in leveraging significant additional funds from other sources such as local government and business.

2.5 The success of the UK model in growing a consumer market for Fairtrade is wholly replicable—indeed Labelling Initiatives across the world such as Sweden, Denmark and Australia are frequently visiting the UK to see what lessons they can take back to their own countries. There are currently 20 Northern-based Labelling Initiatives including in the US, Canada, France and Belgium. However there is scope and interest to develop further markets, particularly in countries which have either recently joined the EU, and/or where Fairtrade does not currently exist, for example Estonia. It will, of course, require significant support to ensure that nascent Labelling Initiatives are resourced appropriately and thus able to realise their potential.

2.6 Developing Southern markets: While the trend for rapid rates of growth of Fairtrade in the consumer market is significant, in global terms the market share of Fairtrade is still small. It is clear that for the impact of Fairtrade to be significant in absolute terms, the market for Fairtrade needs to grow substantially. Much of this may remain South-to-North trade. However, a key driver of sustainability will also be South-to-South sales and therefore the development of Southern markets is a strategic goal. The Foundation strongly recommends that this should also be a funding priority for donors looking to invest in the South. There is already considerable interest in many developing countries but the clearest potential for success lies in the larger economies with a growing middle-class demographic such as Brazil, South Africa, India, the Philippines and Thailand.

2.7 In some countries—Brazil, India and South Africa—the momentum to start Fairtrade Labelling Initiatives is well underway but finance is proving a major obstacle. Those involved in building initiatives in South Africa and India welcomed the Select Committee’s lines of inquiry and noted the importance of supporting civil society efforts to promote Fairtrade in their own countries, and of including specific resources to support Fairtrade in bilateral aid packages.

2.8 Noel Oettle, the Chair of Fairtrade South Africa established in 2005 to develop and promote Fairtrade labelling in that country, noted that “Developing consumer markets is highly dependent on sound practice at the level of local businesses and production systems in developing countries. If this is significantly absent the marketing effort will eventually fail. Our experience demonstrates that donors can provide very
significant support to enable Southern organisations to develop their entrepreneurial and commercial capacities.” He also noted that “this can include developing the capacity of producers and workers to become effective entrepreneurs and to develop and maintain direct links to national, regional and international markets. By focusing on the development of collectively owned enterprises such as co-operatives, donors can spread the benefit amongst the weaker economic sections of the local communities, and mitigate against the ‘capture’ of finance, markets and opportunities by the elites in local communities, to the exclusion of the poor.”

2.9 Southern based Labelling Initiatives face unique challenges in establishing systems to enable them to licence Fairtrade products for local consumption. The markets that they need to target are, at least initially, small and generally unaware of fair trade as a concept. Again, this will therefore require major investment in consumer awareness raising campaigns including on: the impact of Fairtrade Labelling including social and economic benefits to producers, benefits to consumers, and traceability. As highlighted previously, millions of pounds have been spent in the UK to bring awareness of Fairtrade to its current position and similar levels of investment will also be needed to build markets in developing countries. Such activity will also require building links with consumer organisations and other potential networks prepared to raise awareness of Fairtrade as in the UK model.

2.10 The Labelling Initiatives themselves will require technical skills of a high standard, so that they are able to establish and administer rigorous and efficient systems. Providing both initial technical support and the capacity to review and adapt systems once experience has been gained will be vital. Investment will also need to focus on building trade audit experience, management systems and leadership development. It will also need to support the establishment of certification systems. In many cases current FLO standards including pricing may need to be adapted for the Southern context. For example, FLO sets FOB prices, while farm-gate prices will be needed for local markets.

2.11 Supporting producers: The creation of a significantly increased “mainstream” market for Fairtrade where the demands for predictable quantity and quality of products are high also raises additional challenges for the Fairtrade system. As the Report of the Commission for Africa in 2005 noted: “Increased funding from developed countries would help increase the participation of producer groups in ‘fairtrade’. The demand for products carrying the ‘fairtrade’ mark is growing, but investment is needed in building the capacity of producer groups in Africa to meet the rigorous demands of developed country markets.”

2.12 For some products, the market demand for Fairtrade is running significantly ahead of the system’s ability to ensure supply. For example, the initial supplies of Fairtrade certified cotton sold out within three months. There are thousands of smallholders that would like to sell Fairtrade certified cotton but producers need to have a greater understanding of increasingly challenging market requirements, need timely support and assistance to deliver to this changing market and need support to meet the Fairtrade organisational standards. Arun Raste of the Indian Fairtrade initiative noted the need for: “production-related support for producers including upgrades in technology and the key availability of working capital.” For other products, many producer groups are selling just a small proportion of their crop into Fairtrade markets and need more support to take advantage of the growing market opportunities that currently exist.

2.13 Donor support also needs to focus on the requirements for sustainable agricultural production: producers are under increasing pressure to meet higher environmental standards for the organic and Fairtrade markets, as well as to meet supermarket standards such as EUREPGAP. In most developing countries climate change is already having a significant negative effect on production, and the long-term sustainability of production systems and the human communities that they support is under threat. For this reason it is important to ensure that the capacity of producers to sustain production at least matches their abilities to market their products at viable prices.

2.14 Another opportunity to increase producers’ access to export markets is by extending Fairtrade certification into new product areas. The Foundation’s strategic plan involves preliminary investigations of a range of areas including additional food products such as soya and seafood, non-food products such as jute and mining and tourism and other service industries. The development of new product standards is a multi-stakeholder and resource-intensive one, taking between one and three years before a product finally reaches the market and any returns are seen.

2.15 The Fairtrade Foundation recognises that within the context of increasing market demands on producers, maintaining the development focus of Fairtrade is both challenging and essential. That is why the role of FLO’s Southern-based Liaison Officers is so vital in supporting producer organisations to assist producers in complying with Fairtrade standards and progress their development plans. Donor funding from Dutch organisation SNV has been instrumental in increasing the number of officers to 25. However, even with this support, the Liaison Officers in the South can only provide an estimated one day of service per group per year, compared with the required level of some 10-20 days per group per year. The current level of assistance is clearly therefore inadequate. Support for producers is mainly limited to fire fighting, such as following up on problems identified during Fairtrade inspections. In fact Liaison Officers need the time and resources to identify and introduce new producer groups to Fairtrade. Having certified new producer organisations and enabled them to trade, a key challenge for Fairtrade is to enable them to overcome the multiple problems they encounter and assist them in deepening the benefits of Fairtrade.
2.16 As already stressed in the response to Question 1, substantial international funding is now urgently required to build the infrastructure of Fairtrade in the South and capitalise on the significant market opportunities that currently exist for producers. The Fairtrade Foundation, with its partners in FLO, believe that such an investment could potentially enable up to 45 million additional people—smallholders, workers and their families—to benefit from the establishment of successful and sustainable small- and medium-scale businesses.

3. **How can aid be more effectively mobilised to help producers improve the quality of their produce in order to access fair trade markets?**

3.1 Quality improvement is a key factor in improving the success of small producers in selling into export markets. Improvement in quality can be facilitated in a number of ways—education to prevent poor agricultural practices, improvements in packing at farm level and improving processing and storage facilities, to name but a few. Producers also require technical assistance and the infrastructure to enable them to monitor their product quality to ensure consistent delivery of high quality product to the market. Fairtrade certified smallholder groups often democratically decide to invest their Fairtrade premium in such improvements but the amounts are insufficient to solve the problems.

3.2 Producer organisations also require support in developing their administrative and business skills and capabilities—key factors in ensuring their continued economic success and sustainability. Producers also require assistance in order to meet the requirements of Fairtrade certification on an on-going basis. Many of the 100% fair trade and alternative trading organisations have a great deal of experience and success in supporting producer organisations to access export markets and the Fairtrade Foundation would urge donors to support them further in this work.

3.3 The key for donors is to ensure that all efforts to provide technical assistance are channelled through an experienced, and preferably locally-based, partner organisation which is specifically focused on promoting economic opportunities for cooperatives, enterprises and communities through the application of sound business and agricultural practice. The Foundation also recommends that there is increased support to enable producers to capture as much of the value of their product as possible and move into processing wherever feasible.

4. **How does the international trade system impact on ethical and fair trade production (for example, the impact of changes in the EU tariff regime for bananas on small developing country producers)?**

4.1 It is widely recognised that one of the most effective ways of eradicating poverty in developing countries is to establish successful and sustainable economic activity. Fairtrade has proved to be an extremely successful model of how people-centred development can effectively reduce poverty and improve livelihoods. But the Foundation believes that trade is only a “means to an end”, rather than an “end in itself”, and if the trade system is to benefit all on a long-term basis, governments have to manage trade effectively, and intervene where appropriate to mitigate any negative social and environmental impacts and ensure that trade is tackling poverty and facilitating sustainable development.

4.2 Unfortunately these impacts are very often unconsidered if not completely ignored. The last round of WTO negotiations, the so-called Development Round, appears to have sidelined the most important priorities of developing countries. It has failed to deliver on promises to reduce tariff and non-tariff barriers, or to reduce subsidies to developed country farmers. The global trading regime also fails to act upon the principle of special and differential treatment for developing countries to allow them the space and flexibility to develop appropriate trade and development policies. Time and again developing countries have been pushed into inappropriate liberalisation leading to increased poverty. The cases of bananas and rice are just two examples where developing country producers have been negatively impacted by the unequal playing field that is the global trading system.

4.3 **Rice:** Rice producers in developing countries are negatively impacted by the unfair trading practices of rich nations that distort the market. The US Government provides $1.3 billion in subsidies to support a crop that costs $1.8 billion to grow—effectively paying 72% of the cost of production. As a result the US dumps 4.7 million tonnes of rice on world markets at 34% below the cost of production. This has a devastating effect on the millions of smallholders in developing countries who are dependent upon rice for their livelihoods. Further, there are moves at the WTO to force poor countries to reduce their tariffs on rice imports meaning they will not be able to protect themselves from being further flooded with cheap, dumped imports. In addition developing countries also face barriers to exporting rice as a result of the escalating tariffs that the EU imposed upon processed rice imports. Efforts to introduce Fairtrade certified rice in 2002 were unsuccessful simply because it was not an economically viable proposition to sell rice bought at a

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65 These include Cafe Direct, Traidcraft, Twin Trading, Agrofair, Equal Exchange, Day Chocolate Company, Hug, Gossypium, Bishopston Trading and People Tree.
Fairtrade price and milled in-country because of the tariffs that this attracted. One small step in the right direction was the EU decision in 2004 to introduce zero duty for six varieties of long-grain basmati rice from India and Pakistan and a reduced tariff of €175 on polished basmati rice. As a result, a Fairtrade polished basmati rice originating from India was successfully introduced to the UK market in June 2005.

4.4 Bananas: The fate of the Windward Islands’ banana farmers has been under threat since the World Trade Organisation ruled in the late 1990s that the preferential trade arrangements set up by the European Union were illegal. The outcome means that as preferences are gradually stripped away between now and 2008, the island farmers will increasingly struggle to compete with lower cost plantation bananas. There is growing evidence to suggest that it is only access to Fairtrade markets that is enabling the Windward Islands industry to continue to survive. Latest figures for banana shipments from St Lucia, St Vincent and Dominica demonstrate that while in the first quarter of 2005, the average proportion of Fairtrade bananas was 29%, this had risen to 72% by the second quarter of 2006.

4.5 Dr Kenny D Anthony, Prime Minister of Saint Lucia, has noted that: “In this era of competitive global trade, small-scale farmers like ours have little or no chance of survival without the kind of market intervention that is provided through Fairtrade. Not only does Fairtrade guarantee a fair price to our farmers, but the social premium that is generated through the Fairtrade sales provides invaluable support for projects in rural communities throughout the Windward Islands.”

4.6 In addition, the Prime Minister of Dominica, Roosevelt Skerrit, is very clear that without Fairtrade, the island economies would be in ruins. “Fairtrade is providing a vital livelihood for small farmers . . . . It is giving people a legal way of earning a living and maintaining stability,” he has said. “Confidence has been returned to the farmers through access to the Fairtrade market and continued employment is promoting peace and stability,” he added. Not only is the Fairtrade market providing a lifeline to farmers, but the Fairtrade premium is also providing them with their only possibility of having sufficient resources for diversification into other areas such as fruits, avocados and even tourism, as they seek to develop sustainable livelihoods for themselves and their children in the future.

4.7 In Latin American countries such as Nicaragua and Colombia, the EU banana regime has accelerated the race to the bottom as companies drive down prices to remain competitive, which has resulted in lower labour conditions, wages and environmental standards.

4.8 The lesson from Fairtrade is that trade will only work for the poor if it takes place within a policy framework which has development as its aim rather than the maximisation of trade per se. The Fairtrade model is a blueprint, showing in microcosm that trade can be successfully regulated and still be commercially viable. That is why the Fairtrade Foundation, along with its partners in the Trade Justice Movement believe that the UK Government must do more, at the EU and global level, to create the macro-economic environment necessary to enable producers in developing countries to have genuinely fair market access. That means that tariff and non-tariff barriers to EU markets are removed, that developed countries deliver on their commitment to eliminate export subsidies and ensure that that global trade policies and practices do not undercut internationally agreed social and environmental standards, in particular core labour standards, and to ensure that the principle of special and differential treatment is upheld throughout trade policy to allow developing countries to protect their own markets. The strong public commitment to Fairtrade and their willingness to purchase Fairtrade products gives a mandate for the Government to deliver a fairer international trade deal for developing countries.

5. Do existing government guidelines on procurement of ethical and fair trade products provide an enabling environment for the development of this market and the opportunities for producers?

5.1 The consumer market for Fairtrade products demonstrates the extent to which the public is showing leadership in its purchasing practices and the Fairtrade Foundation calls on Government at the national and local level to reflect this in public sector procurement. The public sector spends 13% of national GDP on procurement and the supply of food and catering services in England accounts for more than £1.8 billion annually. The existing OGC guidance of 2002 is designed to help public authorities incorporate fair trade principles into their sourcing whilst remaining within EC public procurement rules. However some local authorities interviewed for Fairtrade Foundation research into the “out of home” sector have been frustrated by both the EC procurement rules and the OGC interpretation of them, as to how they relate to the procurement of Fairtrade certified products. Bristol City Council has labelled them “too restrictive” and Croydon City Council has aired similar concerns. There still appears, at European level, too much legal uncertainty about integrating fair trade principles into procurement and this is undermining efforts to promote it.

5.2 The problem seems to be that the guidelines take a very narrow and technical approach to quality that does not appear to include social and environmental production methods in the same way that technical quality issues, for example health and safety, are included. This has been legally interpreted by some as a barrier to the procurement of ethical and fair trade products.
5.3 Some councils have found their ability to negotiate on Fairtrade products weakened because they have been advised that they are legally unable to specify Fairtrade at the tendering stage. It can be requested once a contract has been awarded but by then councils have much less authority to ensure that it is procured because if suppliers cannot find Fairtrade or it is more costly the contractor has an easy way to avoid supplying it.

5.4 There has however been a recent relaxation of EC public procurement rules in some areas such as the environment with public bodies now permitted to ask for products with environmentally friendly production methods or to award extra points for them in the contract. In July 2006 the European Parliament called on “public authorities in Europe to integrate Fair Trade Criteria into their public tenders and purchasing policies…” The Foundation believes that in order for government guidelines to remain consistent with stated EU policy, there needs to be a re-writing of the OGC guidance to clarify that the FAIRTRADE Mark is an acceptable form of specifying during the tendering process, as part of a wider tender bid. The International Council of Local Environmental Initiatives (ICLEI) has produced advice for European public authorities wishing to purchase Fairtrade products and minimise legal uncertainties. The Foundation recommends this to those seeking to incorporate Fairtrade certified products into their procurement policies and practices. The Fairtrade Foundation would welcome the opportunity to participate in any process of re-writing and clarifying the OGC guidance in respect of Fairtrade.

5.5 London 2012 has set out to achieve the first sustainable Olympic Games and Paralympic Games. It has outlined some of the actions and strategies in the document Towards a One Planet Olympics, which includes a section on Ethics and Fair Trade. This is consistent with the GLA and Mayor Ken Livingstone’s aim to establish London as a Fairtrade city and represents a fantastic opportunity to establish London and the UK as the foremost Fairtrade market in the world.

5.6 Sustainable procurement is central to the delivery of a One Planet Olympics, and the independent FAIRTRADE Mark which is already recognized in 21 consumer markets offers the opportunity to source food & drink, flowers, sports balls and cotton products that have already met internationally agreed Fairtrade criteria.

5.7 The Fairtrade Foundation would welcome working with the 2012 team to integrate Fairtrade into its overall sustainable procurement strategy. The Foundation hopes that there will be scope for the engagement of entrepreneurial small ethical businesses as well as for the global brands. It would be keen to participate in discussions as to how the Foundation might contribute to the overall policy, guidelines for tendering, publicizing the opportunities available and overall messaging on sustainability, ethics and fair trade. The Foundation is also keen to advise its business partners—large companies as well as small and medium enterprises—on how and when there will be opportunities to tender for supply contracts or sponsorship opportunities as they arise, and practical ways to achieve this.

6. What is the role of supermarkets, retailers and businesses in supporting ethical and fair trade production?

6.1 Fairtrade can only work for producers and begin to play its part in tackling poverty if more companies engage more deeply with Fairtrade. Alternative trading organisations have played a pioneering role in developing and supporting Fairtrade. The Co-op has also lead the way for high street supermarkets in “responsible retailing” with Fairtrade at the heart of its strategy. Increasingly, major supermarkets and retailers have taken up the challenge presented by consumers and are demonstrating how business can put Fairtrade and ethical issues at the heart of what they are doing. As highlighted in Question 1, a number of the major UK supermarkets have recently made decisions to switch significant proportions, and in many cases 100%, of certain product lines to Fairtrade. It is worth noting that retailers have to date moved more quickly on Fairtrade than most multinationals which have so far done little more than dip a toe in the water, while all too many companies have yet to engage with Fairtrade at all.

6.2 The Foundation urges all retailers (both large multiples and small independents) and companies (including multinationals, wholesalers and catering companies) to invest substantial efforts and resources in their supply chains to support their producers to meet quality requirements, as well as to try and leverage as much change in supply chain practices as possible, for example in extending their lead ordering times. Evidence from Marks & Spencer indicates that their engagement with Fairtrade has created a positive momentum across their business including driving the development of labour standards, treating farmers fairly, working with suppliers as focal points for development and helping disadvantaged groups.

6.3 The Foundation also encourages all retailers to: incorporate Fairtrade into their core strategies and invest in staff training to support this; stock as many Fairtrade certified products as possible; switch as many of their product lines to 100% Fairtrade as possible; and resource sufficient marketing materials, from advertising to “point of sale” information, about their Fairtrade offering. Beyond this, retailers and companies should also do more to promote and market the vision and the mission which underpin the Fairtrade movement. The Foundation would welcome working with them to make this a reality. This is not an easy process and requires intensive work and commitment from all companies to ensure success but the
benefits for producers and also for companies makes it a target worth striving for. The Foundation also urges companies to invest in the future of Fairtrade and to work cooperatively with the Foundation and producers on developing new products.

6.4 The Fairtrade Foundation also encourages all retailers and businesses to become a member of the Ethical Trading Initiative, which exists to promote and improve the implementation of corporate codes of practice that cover supply chain working conditions and aims to ensure that the working conditions of workers supplying the UK market meet or exceed international labour standards.

7. How can Trade Unions help to ensure that the drive for cheaper produce does not undermine social and environmental standards in developing countries?

7.1 FLO has two core generic standards for certification of producer organisations: one for small farmer organisations and one for hired labour situations. The hired labour standard applies to plantations and is only applicable to a limited number of products. The standard incorporates the core ILO conventions on freedom of labour, freedom from discrimination and freedom of association and collective bargaining and considers independent trade unions the best means for achieving this.

7.2 Too often, workers on plantations supplying the UK and European markets face an uphill battle to earn a living wage and enjoy decent working conditions. The relentless race to the bottom engendered by price wars between large retailers driving down the costs of primary products has caused enormous social and environmental damage in developing countries. Fairtrade certification has the potential to be a valuable tool in the struggle to ensure that labour standards are not undermined and that unions are able to organise more workers. For example the local General Agricultural Workers Union (GAWU) in Ghana was able to work with a pineapple plantation applying for Fairtrade certification to organise workers and negotiate a collective bargaining agreement. In Kenya, the Kenyan Plantation and Agricultural Workers Union (KPAWU) was able to work with flower farms to achieve the same thing directly as a result of the decision to engage with Fairtrade.

7.3 Labour unions and Fairtrade labelling share the same goals and objectives—to strengthen workers’ rights, improve their working and economic conditions and increase their participation in decision-making processes. FLO has historically had limited capacity to commit resources to building more effective relationships with trade unions locally and internationally, or to supporting workers on plantations. The onward momentum of the Fairtrade movement will require increased engagement with hired labour and that in turn will need improved co-operation with trade unions to ensure continued success. Increased donor funding is required to achieve strengthened and structured co-operation between labour unions and the Fairtrade labelling system in order to strengthen worker representation and participation in Fairtrade-certified hired labour settings.

8. In an increasingly crowded ethical marketplace, how can consumers be supported to distinguish between different fair trade brands, labels and codes?

8.1 It is important to be clear about the very different roles that codes, brands and labels play. Brands offer the public Fairtrade products and the 100% Fairtrade pioneering brands differentiate themselves by focusing on their long term and equitable relations with their producer partners, as well as on the quality of the products.

8.2 Codes are generally about ensuring adherence to core minimums and can be effective in ensuring compliance of suppliers and businesses with minimum international labour standards. However, the Foundation believes strongly that these codes should not be positioned on products as consumers rightly expect all their purchases to have been produced according to recognised social norms such as the absence of child labour.

8.3 Independent labels are tools to assist consumers make informed decisions about their purchases. Indeed the key to the success of the Foundation’s strategy has been to focus on raising awareness and understanding of the FAIRTRADE Mark amongst the public. It has also worked to distinguish the FAIRTRADE Mark as a product certification label rather than an endorsement of any companies’ wider practices. As the only certifier of Fairtrade in the UK, the Foundation believes that the issue of consumer confusion while a threat is not yet a reality. A TNS Omnimas poll showed that over half the public (52%) now recognise the FAIRTRADE Mark and that for those who buy Fairtrade products, over 80% rated the independent guarantee of the FAIRTRADE Mark as important to them (see Appendix 2).

8.4 The fact that there is one single trusted Mark is central to Fairtrade Foundation’s ongoing success. Without that, there is a risk of consumer confusion and ultimately cynicism or a retreat into apathy. This indicates that there is still a need for ongoing awareness raising activities. Firstly, to reach out to those consumers who are not yet aware of Fairtrade; secondly, to consolidate and deepen the grasp of Fairtrade amongst already sensitised consumers so that they have a more sophisticated understanding and level of engagement with Fairtrade and the issues of poverty reduction and alleviation.

67 The complete FLO standards can be downloaded from www.fairtrade.net
8.5 The Foundation is convinced that there is a growing interest in development issues amongst the public and the part that fair trade is playing in this is highlighted in the research carried out by BOND following the Make Poverty History campaign (see Question 1). The research specifically noted that only fair trade achieved equally high levels of public awareness as the MPH campaign in 2005 and that these high levels remained static into 2006. Further the research notes that: “fair trade was found to be the only way into discussions on trade which included all types of members of the public”. This is borne out by the Foundation’s own observation, supported by a wide range of NGOs and Trade Unions, that fair trade offers an easy entry point for the public into wider trade and development issues. The Foundation is seeing awareness of the FAIRTRADE Mark penetrating younger age groups which is very encouraging (in 2005, 56% of 25 to 34 year olds were aware of the FAIRTRADE Mark). The Foundation believes that with additional funding to support towns, schools, faith group and other awareness raising campaigns and activities this will contribute to a new generation of people in tune with the North’s development responsibilities and the part they can play in reducing poverty in the South. Fairtrade is very clearly only one part of the complex range of measures needed if trade is to tackle poverty—but it is working and growing and, we believe, deserves wholehearted Government support.

APPENDIX 1

INSTITUTIONAL FUNDING RECEIVED BY THE FAIRTRADE FOUNDATION (1999–2006)

DFID Grants

*From the Development Awareness Fund:*

- Media Activities (1999–2002)—£168,930
- Fairtrade Fortnight (2000–03)—£120,000
- Fairtrade Towns (2003–06)—£99,526 (45% of total budget): instrumental in delivering expansion of FT Towns campaign from 17 towns to over 200 today which has made significant contribution to public awareness of Mark.
- Fairtrade Out of Home (2004–07)—£64,920 (49% of total budget): promoting work places, cafes, other “out of home” places to eat to make the switch.
- Fairtrade Schools (2006–09): £240,356 (70% of total budget): aims to deliver awareness raising in schools; developed in response to calls from education sector for such a nationally coordinated scheme.

*From the Enterprise Development Innovation Fund:*

- Stakeholder Participation (2002–03)—£88,001

*From the Policy and Agricultural unit:*

- Enlargement of the Fairtrade Product Range (2002–04)—£300,000: instrumental in starting the investment in new products.
- Investing in the Future of Fairtrade (2005–07)—£750,000

*Comic Relief*

- Focus on Africa (2003–06)—£250,000: to increase the number of producer groups and products entering the Fairtrade system from Africa.

*European Commission*

- Fairtrade Towns in Europe (2006–09)—€355,683 (75% of budget)—expand and develop the Fairtrade Towns concept, and pass on best practice to European partner organisations.

APPENDIX 2

TNS AND MORI POLL SURVEY FINDINGS (APRIL 2006)

Q1. I would like you to look at the symbol on this card/screen and tell me whether you recognise it or not? Prompted

**Base: All Adults**

<table>
<thead>
<tr>
<th></th>
<th>Jan 99 (1,996)</th>
<th>May 00 (2,147)</th>
<th>May 01 (1,979)</th>
<th>May 02 (2,055)</th>
<th>Oct 02 (2,003)</th>
<th>Apr 03 (884)</th>
<th>Apr 03 B&amp;W (1,001)</th>
<th>Mar 04 (2,050)</th>
<th>Apr 05 (2,311)</th>
<th>Apr 06 (2,151)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Yes</td>
<td>11</td>
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<td>50</td>
<td>52</td>
</tr>
<tr>
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<td>85</td>
<td>75</td>
<td>77</td>
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<td>70</td>
<td>58</td>
<td>48</td>
<td>45</td>
</tr>
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<td>DK</td>
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<td>4</td>
<td>5</td>
<td>4</td>
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<td>2</td>
</tr>
</tbody>
</table>
Q4. Which, if any, of these definitions do you associate with this symbol? You can choose as many or as few as you wish—just read out the letters. Prompted and multi code.

Base: All Adults.

<table>
<thead>
<tr>
<th>Definition</th>
<th>Jan 99 (1,996)</th>
<th>May 00 (2,147)</th>
<th>May 01 (1,979)</th>
<th>May 02 (2,055)</th>
<th>Oct 02 (2,003)</th>
<th>Apr 03 (1,885)</th>
<th>Mar 04 (2,050)</th>
<th>Apr 05 (2,311)</th>
<th>Apr 06 (2,151)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Good value for UK shoppers +</td>
<td>9</td>
<td>12</td>
<td>10</td>
<td>8</td>
<td>6</td>
<td>5</td>
<td>9</td>
<td>9</td>
<td>8</td>
</tr>
<tr>
<td>A better deal for third world producers +</td>
<td>12</td>
<td>16</td>
<td>19</td>
<td>24</td>
<td>27</td>
<td>33</td>
<td>42</td>
<td>51</td>
<td>51</td>
</tr>
<tr>
<td>Brand name</td>
<td>7</td>
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<td>5</td>
<td>6</td>
<td>7</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>An independent endorsement (consumer guarantee) +</td>
<td>6</td>
<td>7</td>
<td>6</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>3</td>
</tr>
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<td>7</td>
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<td>5</td>
</tr>
<tr>
<td>Oxfam +</td>
<td>2</td>
<td>4</td>
<td>3</td>
<td>9</td>
<td>5</td>
<td>4</td>
<td>9</td>
<td>10</td>
<td>7</td>
</tr>
<tr>
<td>Traidcraft +</td>
<td>4</td>
<td>6</td>
<td>5</td>
<td>9</td>
<td>6</td>
<td>6</td>
<td>9</td>
<td>11</td>
<td>8</td>
</tr>
<tr>
<td>Office of Fair Trading −</td>
<td>43</td>
<td>43</td>
<td>38</td>
<td>31</td>
<td>27</td>
<td>27</td>
<td>21</td>
<td>19</td>
<td>14</td>
</tr>
<tr>
<td>None of these −</td>
<td>4</td>
<td>4</td>
<td>5</td>
<td>12</td>
<td>5</td>
<td>9</td>
<td>9</td>
<td>9</td>
<td>7</td>
</tr>
<tr>
<td>DK</td>
<td>23</td>
<td>23</td>
<td>21</td>
<td>25</td>
<td>24</td>
<td>20</td>
<td>21</td>
<td>16</td>
<td>18</td>
</tr>
</tbody>
</table>

Q5. (a) Now thinking about the food that you buy, that is your grocery shopping and other packaged food items. Which of the following statements, if any, best describes how often you purchase products carrying a FAIRTRADE mark? By “regularly”, I mean at least once a month, by “occasionally” I mean roughly once every six months and by “rarely” I mean roughly once a year.

Base: All aware of symbol.

<table>
<thead>
<tr>
<th>Statement</th>
<th>April 2005 (1,152)</th>
<th>April 2006 (1,125)</th>
</tr>
</thead>
<tbody>
<tr>
<td>I regularly buy several different Fairtrade products (ie at least once a month)</td>
<td>15</td>
<td>14</td>
</tr>
<tr>
<td>I regularly buy one Fairtrade product (ie at least once a month)</td>
<td>18</td>
<td>16</td>
</tr>
<tr>
<td>I occasionally buy different Fairtrade products (ie roughly once every six months)</td>
<td>18</td>
<td>14</td>
</tr>
<tr>
<td>I occasionally buy one Fairtrade product (ie roughly once every six months)</td>
<td>12</td>
<td>17</td>
</tr>
<tr>
<td>I rarely buy Fairtrade products (ie roughly once a year)</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>I never buy Fairtrade products</td>
<td>14</td>
<td>17</td>
</tr>
<tr>
<td>None of these</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>DK</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>

Q5. (b) Length of time been buying Fairtrade products?

Base: All who buy any Fairtrade products.

<table>
<thead>
<tr>
<th>Time Period</th>
<th>April 2005 (893)</th>
<th>April 2006 (858)</th>
</tr>
</thead>
<tbody>
<tr>
<td>For the last month</td>
<td>NA</td>
<td>5</td>
</tr>
<tr>
<td>For the last three months</td>
<td>7</td>
<td>9</td>
</tr>
<tr>
<td>For the last six months</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>For the last year</td>
<td>36</td>
<td>30</td>
</tr>
<tr>
<td>For the last three years</td>
<td>25</td>
<td>23</td>
</tr>
<tr>
<td>Longer than for the last three years</td>
<td>16</td>
<td>14</td>
</tr>
<tr>
<td>DK</td>
<td>6</td>
<td>7</td>
</tr>
</tbody>
</table>
APPENDIX 3

GROWTH OF FAIRTRADE IN AFRICA

Number of FLO certified producer organisations in Africa

<table>
<thead>
<tr>
<th>Year</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Count</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Number of African countries with FLO certified producer groups

<table>
<thead>
<tr>
<th>Year</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Count</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
NUMBERS OF FAIRTRADE CERTIFIED GROUPS IN AFRICA BY COUNTRY AND BY YEAR

<table>
<thead>
<tr>
<th>Country</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benin</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Burkina Faso</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Cameroon</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Comoros Islands</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Congo Dem Rep</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Egypt</td>
<td>0</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>1</td>
<td>4</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Ghana</td>
<td>3</td>
<td>5</td>
<td>7</td>
<td>9</td>
</tr>
<tr>
<td>Ivory Coast</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Kenya</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>Malawi</td>
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<td>1</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Mali</td>
<td>0</td>
<td>0</td>
<td>5</td>
<td>3</td>
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<td>Morocco</td>
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<td>0</td>
<td>0</td>
<td>1</td>
</tr>
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<td>Mozambique</td>
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<td>0</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Rwanda</td>
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<td>2</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Senegal</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>South Africa</td>
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<td>0</td>
<td>27</td>
<td>43</td>
</tr>
<tr>
<td>Tanzania</td>
<td>12</td>
<td>11</td>
<td>13</td>
<td>15</td>
</tr>
<tr>
<td>Togo</td>
<td>0</td>
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<td>1</td>
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<td>Tunisia</td>
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<td>0</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Uganda</td>
<td>17</td>
<td>16</td>
<td>16</td>
<td>15</td>
</tr>
<tr>
<td>Zambia</td>
<td>1</td>
<td>1</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>42</strong></td>
<td><strong>59</strong></td>
<td><strong>100</strong></td>
<td><strong>137</strong></td>
</tr>
</tbody>
</table>

PRODUCT CATEGORIES FROM PRODUCER GROUPS IN AFRICA

<table>
<thead>
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<th>Category</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banana</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Cocoa</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Coffee</td>
<td>24</td>
<td>27</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>Cotton</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Dried fruit</td>
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<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Flowers</td>
<td>5</td>
<td>5</td>
<td>14</td>
<td>14</td>
</tr>
<tr>
<td>Fresh Fruit</td>
<td>2</td>
<td>14</td>
<td>35</td>
<td>39</td>
</tr>
<tr>
<td>Fresh Vegetable</td>
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<td>1</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Herb Spice</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Honey</td>
<td>2</td>
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<td>1</td>
</tr>
<tr>
<td>Juice</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Nut Oil Seed</td>
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<td>7</td>
<td>4</td>
<td>7</td>
</tr>
<tr>
<td>Rice</td>
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<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Sugar</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Tea</td>
<td>11</td>
<td>12</td>
<td>16</td>
<td>17</td>
</tr>
<tr>
<td>Wine</td>
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<td>9</td>
<td>22</td>
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APPENDIX 4


Nb Fairtrade minimum price = 121 cents/lb + 5 cents/lb premium
When the New York price is 121 cents or above, the Fairtrade price = New York + 5 cent

The NY prices is the daily closing price of the second position Coffee “C” futures contract at the NY Board of Trade

© Trade Foundation

Robusta Coffee Market 1986 - 2006: Comparison of Fairtrade price and London LIFFE price


NB. The Fairtrade minimum price is 101 cents/lb + 5 cents/lb premium
When the LIFFE price is above, then the Fairtrade price = LIFFE price + 5 cents
LIFFE price is the monthly average closing price converted from $/tonne

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February 2007
Supplementary memorandum submitted by the Fairtrade Foundation

1. FLO Geographical Scope

FLO defines the countries in which it certifies producer organizations as those countries of low and medium human development as defined by the United Nations Human Development Index (HDI), plus those countries with extreme differences between the poorest and the richest, as defined by the United Nations Richest 10% to Poorest 10% (R10% to P10%). Consequently, regarding disadvantaged producers and workers, FLO’s geographical scope encompasses almost all countries in Africa, Asia and Latin America, and the poorest countries in Central Asia.

The term “disadvantaged people”, generally speaking, implies people in countries with a lower general level of development. That is, countries where the general level of income is low and countries that as a whole don’t have sufficient resources to sustainably improve the disadvantaged situation of producers or workers. Thus, countries with high GDP where producers/workers are in bad shape because of unfair distribution of resources, and not because the country as a whole is poor, are excluded. For example, the situation of migrant workers in USA may be worse than that of workers in Latin American countries. Yet this is generally not due to lack of national economic resources, but rather to domestic policy.

FLO’s country policy is the result of a study which analyses six widely known and widely accepted indicators of human development: The OECD’s DAC list of Aid Recipients; The United Nations Human Development Index (HDI); The United Nations Human Poverty Index for Developing Countries (HPI); The United Nations Gender Related Development Index (GDI); The United Nations “Richest 10% of the population in relation to the poorest 10% of the population”—ratio (R10% to P10%).

Three indicators are especially relevant for the focus of FLO. These are the HDI; The HPI and the R10% to P10%. When determining which countries FLO works with, the following procedure was undertaken: First, all the countries that are listed as Medium or Low development in the HDI were put on the FLO country policy list. Thereafter, the HPI was compared to this list, and the countries that the HPI lists as being deprived of the indicators that the Human Development Index lists as having achieved were added. Thereafter, countries that according to the R10% to P10% ratio have an extremely uneven income distribution (20% or more) were also added.

In order to ensure an easier and more logic approach for reviewing the geographical scope in the future, FLO is currently investigating whether the OECD’s DAC list of Aid Recipients could serve as a basis for FLO’s geographical scope.

### AFRICA

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#### Western Africa

| Niger | Senegal | Somalia | Tanzania | Togo | Benin | Burkina Faso | Cape Verde | Cote d'Ivoire | Chad | Ghana | Guinea | Guinea-Bissau | Liberia | Mali | Mauritania | Niger | Nigeria | Senegal | Sierra Leone | Togo |
2. FLO/Fairtrade Foundation Policy on China

Currently, FLO does not certify hired labour organisations in China and the Fairtrade Foundation policy is to not work with supply chains which involve manufacturing in China. This is because of the current restrictions in China on freedom of association, a lack of transparency and independence within Chinese trade unions and the inability of FLO Cert to audit allegations of non-compliance in a factory setting due to legal restrictions. We do not believe that it is credible to try and certify such organisations when we are unable to ensure that they are working to the rigorous standards required by Fairtrade certification. The Fairtrade movement is open to working with operators and licensees to develop and define rules that may enable Fairtrade to genuinely engage with workers in China in the longer term, but a solution is unlikely in the foreseeable future.

The FLO system does however certify small producers in China. There are currently five FLO-certified tea farmers’ associations in China, two of which supply into the UK market. In the case of small producers in China the concerns described above do not apply and so we are able to undertake our usual certification and audit procedure and so feel able certify organisations under the FLO small farmer standard.

3. FLO Price Setting Procedure

FLO develops generic Standards for different categories of suppliers of Fairtrade products (referred to as “Producers”), as well as product Standards. These Fairtrade Standards (“Standards”) are the collective requirements that producers and traders must meet as applicable to be certified as Fairtrade. The Fairtrade minimum price forms part of the product Standards. This is the minimum price that must be paid to Fairtrade producers for their goods. This minimum price is intended to cover the average producers’ costs of sustainable production (“COSP”) per product. Where possible global or regional minimum prices are set, otherwise national prices are set. At times when the market price is higher than the Fairtrade minimum price, the market price must be paid.

Producers or workers (in the case of hired labour situations) of Fairtrade products also receive a Fairtrade premium in addition to the Fairtrade minimum price which will usually be between 5 and 30% of the FOB or “farm gate” price. The Fairtrade Premium is intended for investment in the producers’ business (only for small farmers not in a hired labour set up) and/or community for social development projects. Decisions about the allocation of the Fairtrade premium must be taken democratically by either the elected Farmers’ Committee or, in the case of hired labour, by an employee-elected “Joint Body” which brings together workers and managers with workers in the majority.

4. Fairtrade Certified Cotton

Fairtrade certified cotton is cotton which has met the international Fairtrade standard for production of seed cotton and is therefore eligible to carry the FAIRTRADE Mark. The Mark is an independent product certification label which guarantees that cotton farmers are getting a better deal—receiving a fair and stable Fairtrade price and Fairtrade premium, receiving pre-financing where requested and benefiting from longer-term, more direct trading relationships.

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68 Seed cotton is the content of the cotton boll which consists of the seeds with the fibre attached as harvested from the cotton plant. Following the ginning process the seed cotton is separated into the cotton fibre (or lint) and seeds.
Fairtrade cotton, like all Fairtrade certified products, comes through fully registered and transparent supply chains. The Fairtrade trading standard requires all operators that handle Fairtrade cotton throughout the supply chain from ginner, spinner, knitter, weaver, dyer, garment factory, including any subcontractor, to submit independent verification which documents their efforts to meet recognised labour standards. Updated evidence must be submitted every two years. The monitoring of labour conditions is an incredibly complex issue. Organisations such as the Ethical Trading Initiative, the Fair Wear Foundation and Social Accountability International have made enormous efforts to improve working conditions in the garment industry and our efforts are intended to complement this work. While there is still a long way to go, the requirement for all operators to submit independent verification demonstrates how Fairtrade certification of cotton can be a way of leveraging change and improvements for workers throughout the entire supply chain.

Fairtrade certification is a development tool which primarily focuses on and addresses the problems faced by vulnerable producers of agricultural commodities such as coffee and bananas. Fairtrade certification of cotton aims to improve the situation of the cotton farmers at the very bottom of supply chains, recognising that they are at the sharp end of exploitation and injustice in international trade in the same way as many other producers of agricultural commodities. We also recognise that there are other vulnerable people further along the supply chain who could, in theory, benefit from Fairtrade certification. That is why we are currently exploring whether and how we can develop a standard which would extend the benefits of Fairtrade further along the supply chain to those involved in cotton garment and textile manufacturing.

Memorandum submitted by Marks & Spencer (M&S)

SUMMARY

Marks & Spencer is one of the UK’s leading retailers selling own-brand food and clothing products. We sell over 50 Fairtrade products which are responsible for over £30 million sales, around 15% of the total UK Fairtrade market. We plan to expand our Fairtrade offer further.

Our commitment to Fairtrade is part of our wider commitment to ethical trading and would not be possible without the foundation of good core labour standards in our supply chain.

Due to high brand recognition, there is also a strong business case for retailing Fairtrade products. However we have a strict policy of not inflating our margin on these products. In some cases, where we have switched whole categories to Fairtrade we offered these products at the same price to customers. This is offset by increased sales.

We believe the best approach to involving the private sector in development is one which utilises business functions and skills. Fairtrade offers retailers a way to become involved in development via mainstream business activities, using retailers’ skills and resources. A further strength of the Fairtrade model it that the local community decides how to spend the extra money thus ensuring that interventions are appropriate and relevant. In our experience funds are invested in health and education projects, product development and diversification. We have also seen evidence that farmers practicing Fairtrade are better equipped to understand and participate in the marketplace.

We believe that Fairtrade offers DFID and the retail sector a good opportunity to work together by investing in increased supply of Fairtrade produce from the developing world. Some of the market access programmes we have come across have little chance of accessing a mainstream market because they are producer rather than market led. On the other hand, we know that the UK market for Fairtrade is undersupplied. Therefore, we believe donors looking to fund market access programmes should consider putting money into Fairtrade—specifically by investing on the ground at the supply end to enable expansion. This then levers further retail investment and consumer engagement.

Our work on Fairtrade has created a positive cycle of action in the business. For example, it has made us look more closely at the whole cotton supply chain and drive improvement in standards right down the chain. It has also given us a better understanding of the issues at the various levels of our supply chains.

M&S recognise that Fairtrade is not the only way for us to achieve development aims. However, it has unlocked a huge amount of awareness and potential for our business to access a proactive approach to development, leveraging consumers’ desire to vote with their wallets. We believe that Fairtrade has the potential to expand further and reach millions more producers across the developing countries.

1. INTRODUCTION

1.1 We welcome the opportunity to input to this enquiry on Fairtrade and Development. Marks & Spencer is one of the UK’s leading retailers selling clothing, food and home products. We have over 450 stores located throughout the UK and employ 65,000 people. We also have an international business comprising wholly owned and franchise stores around the world. Our UK market share is currently 4.3% in food and 10.5% in clothing. We are nearly 100% own brand and have supply chains which are spread across many developing countries. Their growth and stability are crucial to our future business strategy.
1.2 Today Marks & Spencer sells over 50 Fairtrade products in foods and general merchandise (GM). We have converted our whole coffee and tea business to Fairtrade (over £20 million retail sales value) and our entire chain of over 200 in-store Cafés also sell only Fairtrade tea, coffee and hot chocolate. In addition all of the tea and coffee in our office and store employee cafes is 100% Fairtrade. Our products are currently responsible for over £30 million sales, around 15% of the total UK Fairtrade market. We estimate that this will grow significantly this year with the rapid expansion of our Fairtrade cotton programme, after having been the first major retailer into the Fairtrade cotton market in March 2006. Our switch to Fairtrade coffee and tea grew sales in this area by 6% and we estimate that our coffee switch alone has also contributed to improving the lives of over 50,000 producers.

1.3 We set out below what we believe to be the ethical and business cases for Fairtrade, our approach to retailing Fairtrade products and how we have seen it assisting development in our supply chains. We also offer some observations on the impact our work on Fairtrade has had on our core business.

2. Ethical Trading

2.1 Our commitment to Fairtrade is part of wider commitment by M&S to ethical trading. Trust and responsibility have always been core brand values for us and as our supply chains have moved across the world we have continued to promote ethical and sustainable business which benefits all members of the supply chain. We have been an active member of the Ethical Trading Initiative since 1999.

2.2 We recently announced Plan A—a £200 million Eco-Plan including a wide range of social and environmental commitments which will build on past work and have an impact on every part of M&S' operations over the next five years. One of the five pillars of Plan A is our commitment to be a “fair partner” to those we work with in the UK and abroad. This includes a commitment to further strengthen our commitment to good labour standards at our suppliers, strengthening our relationship with UK farmers, working with suppliers and their communities and helping disadvantaged groups through the extension of the Marks & Start employability programme.

2.3 Under Plan A we have also committed to extend our Fairtrade offer. Our use of Fairtrade cotton will increase massively as we convert key, high volume clothing ranges to 100% Fairtrade cotton. Over the next 12 months this will mean 20 million garments made from Fairtrade cotton, equal to around 10% of all the cotton we sell. This equates to around one third of the world’s current total supply of Fairtrade cotton. We will also build on the success of Fairtrade coffee and tea in our Food business by offering more Fairtrade bananas, converting all the sugar in our jams, marmalades and bags of sugar to Fairtrade.

3. The Ethical Trading Case for Fairtrade

3.1 Our current commitment to Fairtrade, and our future plans, would not be possible without the foundation of good core labour standards that apply to every one of our over 2,000 suppliers and which we have worked on for many years. We firmly believe that Fairtrade should not be a fig leaf. It is a visible, positive message for consumers about going one step further and having a positive impact right at the end of the supply chain, usually hidden by complex networks of supply. Fairtrade provides us with engaging evidence for our customers of a much wider commitment to trading fairly.

3.2 The challenges of meeting our commitment to ethical trading vary depending on the type of relationship we have with suppliers. For all of our first tier suppliers we set standards on labour and the environment and have an active relationship with those suppliers to monitor and improve their impacts. For many fresh food products this relationship and standard setting goes right back to the grower, fishery or farmer at the end of the chain.

3.3 However, for many years we struggled to understand the best way to engage with the 100’s of thousands of smallholder farmers at the end of commodity supply chains. Yet we knew that some significant social and environmental issues lay at the bottom of these chains with some of the world’s poorest people. Difficulties included setting and monitoring standards for such a vast number of smallholder farms; the need for a pricing mechanism which would incentivise and reward farmers to meet higher environmental and social standards; and a business justification for paying higher prices in the form of consumer recognition—a marketing tool to communicate a very complex issue to our customer.

3.4 Fairtrade answered all of these questions by providing:

— An internationally recognised mechanism for offering a fair deal as well as promoting environmental and social improvements with a huge number of smallholder farmers.

— An International standard for the price which producers should receive to cover their cost of production plus a reasonable profit.

— One clear standard which is appropriate and achievable for smallholders which covers social, environmental and economic issues.

— A mechanism for retailers to get involved in development without the need for a new set of skills.
— A development model which allows the communities themselves to decide how they will use the extra money generated by Fairtrade. This moves away from a philanthropic or western centric model of development in which donors make assumptions about what to give to poor communities.

3.5 We found that in many cases the Fairtrade model could be applied to our existing supply chains. In converting tea and coffee to Fairtrade, M&S worked predominantly with our existing growers as we wanted to reward farmers that had grown good quality tea and coffee for us for many years.

3.6 Cotton was a different story as M&S had never before interacted with cotton farmers right at the end of our textile supply chains. Cotton farmers may be five or more stages removed in the supply chain from the retailer—beyond garment manufacturers, fabric mills, dye houses, spinners, ginners and traders. However, M&S knows all of its garment manufacturers, fabric suppliers and dye houses because of the strict standards we set for ethical, environmental and quality parameters. This gave us a head start in being able to piece together chains which eventually led to Fairtrade cotton farmers.

4. THE BUSINESS CASE

4.1 There is a very strong business case for getting involved in Fairtrade and this is why the market has been growing so strongly over the last few years.

— Fairtrade is highly visible with over 50% UK consumers recognising the brand and sustained media attention.
— According to a recent YouGov survey commissioned by Marks & Spencer, 59% of consumers say they already purchase Fairtrade products and 18% said they would buy Fairtrade items if they were more widely available on the high street.
— It provides a simple brand message to our customers which they relate to and which incentivises increased sales.
— It provides a strong campaign message which all parts of the business (food, clothing and our employees) can get behind.
— It is significantly easier to get customer recognition and media interest in Fairtrade than in individual “own brand” schemes.

This strong business case is driving companies like M&S to become involved in development, to pay higher prices for commodities and to interact with producers at the end of our supply chains. Fairtrade has brought the issue of development to our 65,000 employees and over 10 million M&S customers.

5. THE M&S APPROACH TO RETAILING FAIRTRADE

5.1 When our customers told us they wanted to be able to buy more Fairtrade products we decided we wanted to make a bold commitment to demonstrate that being fair to our suppliers is part of our brand. That is why we converted all tea and coffee and have made such big commitments to Fairtrade cotton.

5.2 We have a strict policy of not inflating our margin on Fairtrade products as we believe it is wrong to profiteer or mislead the customer about the amount of money going back to farmers. Where we have offered Fairtrade as a “choice” within a category, the price must reflect normal margin policy for that category. However where we have switched whole categories eg tea, coffee, and soon our £5 t-shirts, we offer these products at the same price to the customers. This is offset by increased sales in these products—a win win situation for all.

6. FAIRTRADE AND DEVELOPMENT

6.1 We believe the best approach to involving the private sector in development is one which utilises business functions and skills to contribute to development. Fairtrade offers retailers a way to become involved in development via mainstream business activities. It requires the use of retailer skills and resources. It also contributes to profits, thus providing the business case to continue to do more. This is in contrast to philanthropic giving.

6.2 The Fairtrade Premium is an important element of the Fairtrade certification scheme. One thing we are all conscious of in the development debate is the need to ensure that “western” interventions are appropriate. It could be easy for a business thinking about getting involved in development to try to fund those interventions that would be most favoured by customers rather than those that would be most needed by the communities they are trying to help. With Fairtrade the community decides how the extra premium that they earn through Fairtrade is spent. The only important caveat is that the community must organise itself with a democratically elected committee who decides how the money will be spent for the benefit of the community. We believe that this offers a very empowering way of driving development.

6.3 One criticism of Fairtrade has been that it works against market forces and its elevated prices increase supply in often already oversupplied commodity markets. We would refute this criticism. Firstly, from the customer point of view, we see Fairtrade as another “value adding” quality for products and if customers
are willing to pay for this quality then this is simply market forces in action. Secondly and importantly from
the farmer point of view it is often difficult for farmers in developing countries to diversify or obtain market
information. Often the only option open to them in times of low price is to further increase the amount of
land that they cultivate rather than diversify because opportunities to access the right tools to diversify are
very limited. We have seen two good examples of this in India and Mali.

6.4 In India our Fairtrade cotton farmers told us about the treadmill they faced before becoming
Fairtrade certified, being indebted to pesticide companies and traders who lent them money in exchange for
low prices for their cotton when picked. The farmers told us that their only option was to keep growing more
and more cotton to keep up with the massive debts.

6.5 In Mali the cotton sector is still state run. Growing conventional cotton is the only way to access a
guaranteed (but still very low) income and one of the only ways to access farm inputs because of a state run
pesticide distribution scheme, tied into the requirement for all cotton farmers to sell their cotton back to the
state run cotton company. Therefore, in both India and Mali it is factors in the conventional market which
are driving continued growth in supply even when farmers are unable to make a decent living.

6.6 Another good example of the development benefits of Fairtrade were witnessed recently on a trip to
Mali. Malian farmers are some of the poorest in the world. The Fairtrade price and premium received by
the farmers we visited quite literally changed their lives and those of their children, enabling farmers to make
an income from their land and helping them to build classrooms to educate their children. However, there
was another side to Fairtrade in Mali which is indicative of a less well understood benefit of Fairtrade—
empowerment. The cotton sector in Mali will shortly undergo privatisation, opening millions of farmers up
to the harsh realities of the market. Both the current state owned cotton company and the farmers
themselves believe that those farmers practising Fairtrade will be the most ready for privatisation as they
better understand the market and are structurally organised into cooperatives within their community
groups and are thus able to better negotiate.

7. The Fairtrade Premium

7.1 Fairtrade producers selling into M&S have used their premium in a multitude of different ways—for
health and education, product development and diversification.

7.2 Farmers in Gujarat in India have installed a fresh drinking water tank into their local school, helping
their children to live free from disease. In Mali we have seen a number of farmers invest in warehouses which
has improved the quality of their cotton. In one village this meant that it freed up the school building which
had previously had to house the cotton meaning that children did not get schooling for months after the
harvest. Also in Mali we have bought cotton from a number of cooperatives who have joined forces with
the local government to co-invest in providing classrooms for their children.

7.3 In Indonesia, revenues from Fairtrade are helping coffee farmers fund various improvement
programmes including nurseries for seedlings and the construction of a cupping lab, wet mills, a tasting
room and a training centre in order to help them understand what happens to their coffee after it leaves their
fields. In Honduras, farmers are using revenues from Fairtrade to invest in coffee processing equipment and
diversification. In Ethiopia Fairtrade coffee farmers are experimenting with intercropping other crops with
coffee, investing in coffee processing machinery and training programmes for farmers to maximise efficient
production.

7.4 In India, because of the link with the market, our cotton farmers have been able to talk with major
retail brands across the world and are now investing in diversifying into other Fairtrade rotation crops such
as nuts and spices and mangoes which grow around the fields. This will further improve their income.
Improving income allows farmers to think of the future not just the basics that they need for today and so
we have seen that many of our Fairtrade groups have begun a positive cycle of development through
increasing their revenue generating activities so that they can help themselves to a more secure future.

8. DFID/Donors

8.1 We believe that Fairtrade offers DFID and the retail sector the perfect opportunity to work together
for the benefit of all by investing in increased supply of Fairtrade produce from the developing world.

8.2 Many millions of pounds are spent by donors all over the world on market access programmes. Some
that we have come across have dubious market opportunities and are producer rather than market lead,
meaning they often have little chance of accessing a mainstream market. On the other hand, recent customer
research by the firm Fruit Passion showed that the market for Fairtrade is massively under supplied in the
UK and many thousands of uncertified producers are unable to access a market where consumers are willing
to pay more to buy Fairtrade products.

8.3 Fairtrade has proven itself both in terms of a market and also as a development model. Therefore
donors looking to fund development via market access should consider putting their money into this system.
This then acts as a “lever” unlocking private sector investment in development via the purchase of Fairtrade
products.
8.4 M&S has already begun to work with donors to invest in Fairtrade. In India, we have worked with the Shell Foundation, who have invested in Agrocel (the Fairtrade cotton cooperative we mentioned earlier in India). An initial investment of funds and business skills by the Shell Foundation helped the farmers to secure much needed orders for their cotton. Once M&S was involved we also bought our own business skills and expertise to help the farming organisation. Shell Foundation interventions ranged from providing training and materials—some as simple as hairnets and cotton bags to gather cotton in the fields so that it was not contaminated during harvesting, to building a stockpile so that the cotton wholesaler could guarantee M&S and other customer's orders. M&S helped by linking Agrocel into our network of spinners and is now setting up longer term purchasing contracts.

8.5 Once donor money and orders help to secure the future of the organisations we work with, the Shell M&S partnership looks to help them leverage finance, for example from development banks such as Triodos Bank, so that they begin to become sustainable businesses. Once farmers have Fairtrade certification and the money is flowing back to them and their community there is no reason why these communities should need further donor funding as they now have a mechanism for generating a sustainable living.

8.6 We believe donor funds should be directed to investing on the ground at the supply end to enable the Fairtrade system to expand, thus leveraging further retail investment and consumer engagement.

8.7 DFID could support the Fairtrade system in two valuable ways. The first is strengthening their “on the ground” teams to build local awareness and capacity both in certification and producer support. This would drive increase in supply and numbers of producers benefiting from their Fairtrade system to meet the increasing customer demand. The second would be to strengthen the capacity of the Fairtrade Labelling Organisation and Fairtrade Foundation as their current systems and processes are struggling to cope with their move from niche to mainstream. We believe that the status quo system should be self financing but that it is right for donor money to be spent to help the system to make the very big step from niche to mainstream and to help Fairtrade move into new areas such as handicrafts to allow even more people to benefit from the system.

8.8 A concern expressed by some donors is that retailers who want Fairtrade products should be funding the whole system. However, retailers already support the Fairtrade system through the licence fees and Fairtrade producers through the Fairtrade minimum price and premium. On top of this retailers make large investments of time and expertise in the process of converting product to Fairtrade. Marks & Spencer has also invested time working with the FLO and Fairtrade Foundation to ensure that system remains robust and able to cope with increasing demand. We believe that relatively small “pump-priming” investment by DFID reaps significant returns.

9. Impact on M&S

9.1 Our work on Fairtrade has created a positive cycle of action in the business. The marketing of Fairtrade products to the consumer made it even more important that we were effectively managing our core ethical standards across our supply chain.

9.2 In addition, Fairtrade made us look more closely at the whole cotton supply chain. In order for a cotton product to carry the Fairtrade cotton mark, all levels of the supply chain must have an independent ethical audit thus ensuring that on top of our usual standards applied to garment factories as our direct suppliers, suppliers all the way down the chain are checked for issues such as health, safety, minimum wages paid and minimum age of employment. This has both helped to drive improvement at those facilities as well as giving us a better understanding of the issues at the various levels of the supply chain and has been a factor contributing to a commitment under Plan A to extend our monitoring of standards down the supply chain.

9.3 This demonstrates again that Fairtrade has not only influenced development of Fairtrade producers but has indirectly contributed to raising awareness and standards across our cotton supply chain largely based in the developing world.

9.4 Engaging with Fairtrade has also been a relatively easy way for our business to access the world of development and subsequently other opportunities have started to emerge based on other Fairtrade and non-Fairtrade supply chains. However, it is worth stressing that it has been much more difficult to engage with non-Fairtrade businesses that give themselves a “fairly traded” tag as it is harder to set and monitor appropriate standards for these organisations. Standards and decisions taken with the Fairtrade system are discussed and supported by the producers themselves, businesses, NGOs and trade unions such that they have a robust justification. This level of stakeholder engagement and robustness of decision making is not possible for individual companies and individual initiatives and thus the scale and pace which non-Fairtrade products can be developed and rolled out can be inhibited by lack of clear guidance for companies and a lack of consumer understanding of development issues. In short, Fairtrade makes it simple for businesses and for consumers to do their bit.
10. **Addressing a Crowded Marketplace**

10.1 We accept Fairtrade isn’t the only certification scheme and is not the only way for business to become involved in development. But we are pleased to use it as part of a suite of ways in which we contribute to development because it has a visibility across the UK and increasingly internationally too (for example our Hong Kong stores have recently started to promote Fairtrade coffee and tea).

10.2 FLO are also constantly developing new standards in order to benefit other types of producers. One of those which FLO are hoping to set are for handicrafts and DFID sponsorship of an initiative to complete this project could open up a currently very fragmented and niche market which we believe has the opportunity to expand.

11. **Conclusion**

11.1 M&S recognise that Fairtrade is not the only way for us to achieve development aims. Our trading with good suppliers in Africa and South Asia, with whom we set and monitor good labour standards, remains we believe our most significant contribution to development within these countries and industry sectors.

11.2 However, Fairtrade has unlocked a huge amount of awareness and potential for our business to access a proactive approach to development, leveraging the consumers desire to use their shopping to support some of the world’s poorest people. We believe that Fairtrade has the potential to expand further and reach millions more producers across the developing countries. Now that we have become involved with development and recognise the customer demand for products which positively contribute, we are also actively investigating other possibilities for using our products and supply chains to drive development.

11.3 The current capacity of the Fairtrade Foundation and FLO both in Europe and on the ground can not keep pace with the market demand for Fairtrade products. Therefore we strongly recommend that DFID investigate the possibilities for funding a system which we believe has an unrivalled proven track record of driving sustainable development.

*February 2007*

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**Memorandum submitted by Nestlé**

**Sustainable Development in Cocoa Farming**

The cocoa and chocolate industry has a long term commitment to the sustainable development of cocoa farming and cocoa farming families. As part of the three pillars of sustainability—social, economic and environmental, industry funds a series of programmes:

- **Cocoa Certification**—this system has been established to monitor and then drive improvements in labour practice on cocoa farms.

- **International Cocoa Initiative**—this independent foundation is the forum for action between industry and civil society, the aim of ICI is to eliminate the worst forms of child labour in cocoa. ICI works at a community level and with Governments in West Africa to ensure sustainable change both through governance structures and by action at a village level.

- **Sustainable Tree Crops Programme**—the STCP runs farmer field schools in cocoa farming villages. The programme helps farmers grow their crops more productively and also provides social education for example malaria management, HIV/ AIDS awareness and child labour practices.

- **World Cocoa Foundation**—this organisation focuses on the three pillars of sustainability and guides and coordinates regional programmes such as the farmer field schools.

For further information please see: www.cocoa farming.org.uk and www.worldcocoa foundation.org

*March 2007*
Further memorandum submitted by Nestlé

CERTIFICATION: HELPING CHILDREN, FAMILIES, COMMUNITIES

Responsible Labor Practices in Cocoa Farming

The chocolate and cocoa industry is working to improve the well-being of children and adults on cocoa farms, worldwide. This work includes a commitment to ensuring that cocoa is farmed in a responsible manner.

The industry is working with West African governments, NGOs and labor experts to design and implement “certification” for cocoa farming labor practices. The program is part of a broader, ongoing effort to promote economic and social development in cocoa farming communities.

Certification for cocoa farming addresses two principal questions:

What child and adult labor issues exist on cocoa farms in West Africa?

Are steps being taken to address these issues? How are the lives of children and families on cocoa farms improving?

Cocoa certification is a transparent, credible and ongoing program that reports on labor conditions in the West African cocoa farming sector—in a country-by-country basis. The cocoa certification program also measures the effectiveness of work to ensure that cocoa is grown responsibly, without the worst forms of child labor or forced adult labor.

Cocoa certification represents a major step forward in efforts to improve the well-being of children, farm families and communities in the cocoa sector.

This is the first program to address labor issues involving a farm-based commodity, grown on several million small, family owned and operated farms in the developing world.

Cocoa certification will include:

— Data collection—at the community and farm level—that provides a statistically representative view of child labor and forced adult labor problems.

— Transparent, publicly available annual reporting on the findings from the data collection, and on the impact of efforts to improve labor conditions.

— Remediation—a range of activities designed to improve the well-being of children and address the issues brought to light by the survey.

— Independent verification of the data collection, reporting and efforts to improve labor conditions.

These elements are designed to work together to drive continuous improvement in the well-being of children, families and cocoa farming communities.

When implemented, the process will certify that within a country’s cocoa sector, efforts are in place to measure and report on labor practices and help those who may be in a child or forced labor situation.

Hundreds of experts, representing a wide range of government agencies, organisations and industry, have worked since 2001 to develop a credible certification system for cocoa farming—something never before attempted over so large a rural area in the developing world.

March 2007

Memorandum submitted by People Tree

1. INTRODUCTION

1.1 There has been little donor support of Fair Trade garment manufacturing. The textile industry is a major employer of low paid workers in developing countries, probably second only to the agricultural sector.

1.2 Encouraging Fair Trade manufacturing, the use of Fairtrade certified cotton and creating the market for them does much more than benefit the people directly involved in manufacturing, cotton farming and their communities. The pioneers of Fair Trade Fashion, People Tree foremost among them, have not only made the market for Fair Trade clothing but also spearheaded consumer awareness of the ethics of the industry and thus the development of a wider market for Fair Trade and Ethical clothing. Consumer

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69 People Tree is a registered member of the International Fair Trade Association (IFAT). Having joined in 1996, IFAT members have the mission of Fair Trade at the heart of their activities and at the core of all they do. IFAT is an internationally recognized organization that aims to improve the livelihoods of disadvantaged producers, by linking and promoting Fair Trade organizations and speaking out for greater justice in World Trade. IFAT members take part in regular reviews to ensure that they meet IFAT standards.

70 These benefits include securing incomes for highly marginalized people between 30–100% higher than those they could otherwise earn locally.
pressure has pushed conventional manufacturers into improving their standards of corporate social responsibility—in an industry renowned for its abuse of health and safety standards, poor working conditions, payments below national minimums, forced overtime and trade terms and increasingly short lead times that promote exploitation of people and the environment. So support of Fair Trade fashion helps improve conditions for textile workers in general.

1.3 This paper seeks to show donor support might benefit organisations like People Tree and the communities it supports; and how current funding policies do not recognise the importance of capacity building, marketing and distribution in the promotion of Fair Trade manufacturing.

1.4 In brief, we recommend that aid be given in three areas:

(i) Loan guarantees—to help fund advance payments to Fair Trade registered manufacturers and advance purchase of cotton. These are costs borne by Fair Trade garment companies but not conventional High Street retailers, generally pay on delivery or after delivery.

(ii) Grants to support Fair Trade technical support and organisational capacity building to improve the quality of Fair Trade goods, produce high value-added products and help promote sustainable livelihoods for marginalised people in the developing world.

(iii) Campaigns to raise consumer awareness of the impact of Fair Trade, and thus put pressure on high street retailers to adopt buying practice that ensures they go beyond Social Compliance minimums (ILO Convention on labour rights minimums) and meet government commitments to the Millennium Development Goals.

1.5 It is also crucial that this aid is available to social enterprises which are registered as companies, and not just to NGOs.

2. People Tree

2.1 People Tree was established to market Fair Trade, handicrafts, clothing and food in Japan over 15 years ago, by a Briton, Safia Minney. People Tree UK was set up about five years ago and focuses on Fair Trade and organic clothing, which is sold by mail order, though the internet, wholesale to small shops and through a concession in Topshop. We are about to launch of range of clothing under the label “People Tree for Topshop”.

2.2 Our mission is to create sustainable livelihoods for poor and marginalized people around the world. 55 Fair Trade groups in 18 developing countries, about 10,000 people, benefit from the activities of People Tree worldwide largely in South Asia, but also we work with projects in Peru, Africa and SE Asia.

3. Donor Support for Work Creation Projects

3.1 There have been many work creation projects, where NGOs have set up training schemes for producing handicrafts and garments, and perhaps assisting with design and quality assurance at the start. These organisations often run aground once the funding finishes. If they do not have the support of an organisation to market or help design their products, nor the own expertise to continue to update their designs nor the wherewithal to keep in contact with their markets in the West their ability to sell their products will diminish, and they will fail financially. They also need to be able to update both their technical capacity and develop their management skills if they are to compete with the wider market. They need an understanding of commercial realities and barriers that need to be overcome for the longevity of orders.

3.2 Experience shows that producer organisations can develop and scale-up most successfully when learning through the Fair Trading process itself, working in partnership with Fair Trade companies with experience of wholesale distribution and retail.

4. The Need for Capacity Development

4.1 Once we at People Tree, have established relations with a group, like other Fair Trade organisations, we give on-going support, and continue to develop capacity. So at one end, we are trying to support new groups, but we also work very hard with established organisations. Our principle jersey cotton manufacturer in Southern India, set up to employ and train young women from very poor backgrounds, some of whom are also physically disabled, now employs 150 people. The quality of the garments is good and able to compete with the high standards demanded by the conventional high street. So we spend time, effort and money training, running quality assurance workshops, developing traditional skills, supporting environmentally friendly production processes and infrastructural development. This is the first factory to pioneer organic cotton clothing manufacture exclusively and achieve Soil Association standards for a garment in the developing world.

4.2 Also as these businesses grow, they need organisational capacity building, marketing, financial management and Fair Trade training and monitoring support.
5. Developing the Supply Chain

5.1 Many small producer groups need to work together to purchase cotton. People Tree has developed a network to supply organic cotton to hand-weaving projects in India and Bangladesh, to promote livelihoods amongst a community of 500 hand weavers.

6. How Might Funding Support Supply Chain Development

6.1 Grant funding to develop the Fair Trade clothing sector will achieve a scaling-up of social impact, environmental protection and heightened consumer awareness. It can build up Fair Trade production capacity, to the critical mass required to meet quality standards expected from the market and thus create decent and sustainable livelihoods for people in some of the poorest communities in the world.

6.2 To achieve this, funding is required for:

(i) The establishment of an organic cotton project in Bangladesh (currently there are several organic cotton producer organisations in India, but none in Bangladesh—although there are many well established Fair Trade garment producers).

(ii) The set-up of a design and technical service centre in London to promote Fair Trade technical services to small-scale producers. (If you are to produce garments for the UK, you need to respond to design trends and understand the quality standards required by this market.)

(iii) Organisational capacity building services to small-scale organisations. (One of the biggest barriers to scaling up Fair Trade producer organisations is the lack of general management and business skills.)

(iv) The set up a carbon credits trading programme to benefit small-scale handicraft artisans and organic farmers whose production methods and livelihood have the lowest carbon footprint in the world.

6.3 Such support needs to be available to social enterprises constituted as limited companies as well co-operatives and NGOs. The Fair Trade producer groups need to run as sustainable businesses, they need the support of other viable businesses and contact with the culture and insight of business, and not just that of grant based organisations.

7. Advance Payments and Cotton Purchase

7.1 Fair Trade businesses have two sets of costs that conventional clothing companies do not have. We work by the principles of the International Fair Trade Association, IFAT (www.ifat.org). One of the criteria is that we pay up to 50% in advance for product orders. This gives the small enterprises we work with cash flow to buy materials and pay people on time.

7.2 Another major cost is the purchase of cotton fibre. 50% of our garments are made with organic cotton, which is also Fairtrade certified. We use organic cotton not just because it is more environmentally sustainable, but it has benefits for economic sustainability as well.71

7.3 One of the principles of fair trade is that you commit to buying from suppliers in the long term. Moreover there is now a world shortage of Fair Trade organic cotton. So to maintain our supplies, we have to buy at harvest time—February–March in India—and this for cotton we may not be selling until July–August 18 months later. Commitments for quantities are made at the time of planting the seed.

7.4 This ties up a large of amount of capital. Fair Trade businesses are set up to make a profit, but only a small one. Profits, if there are any, are channelled back into product development and campaigning, which in turn builds markets for Fair Trade products. Moreover, Fair Trade clothing competes in an unlevel playing field.

7.5 There are few social venture capitalists and they currently are seeking unsustainable financial returns on capital, (a level of returns that would make the price points of goods too high to sell in the UK market, without seriously compromising Fair Trade principles). People Tree is a pioneer of Fair Trade fashion; our value in development terms is that we are pushing boundaries, developing new models of business and pushing standards forward.

7.6 Loan guarantees will help us borrow at reasonable rates and would enable us to expand and to support more people in more marginalized communities around the world.

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71 The World Health Organisation estimates that 20,000 people a year die in developing countries from pesticide poisoning, and a further three million people suffer chronic health problems. Conventional cotton farming uses only 3% of total farmland, it consumes 10% of chemical pesticides, and 22% of all insecticides. Transition to IPM and organic cotton farming will benefit the farmers and the environment significantly.

People Tree works closely with organic cotton producers and garment manufacturers at every stage of the production process to avoid the destructive impact of conventional cotton production. As well as protecting their health, avoiding the cycle of debt involved in pesticide purchase, and increasing their yields in some cases, organic farming also means that along with the Fairtrade premium, farmers receive a 30% premium above conventional prices.
This submission uses People Tree as a case study, but this is not a plea for ourselves alone or even just the Fair Trade Fashion sector. The broad principles outlined in this paper apply across the Fair Trade manufacturing sector—and much of the Fair Trade agricultural sector as well. This is because making more value-added product maximises benefits to producers and promotes livelihoods. Loan guarantees and grants for building supply chains and producer capacity will benefit a very wide range of organisations.

February 2007

Memorandum submitted by Sainsbury's plc

1. INTRODUCTION

1.1 We have 752 stores, of which 275 are convenience, employ over 153,000 people employees, have 40 depots and serve around 16 million customers a week. We sell around 26,000 food/drink products (15,000 of which are own-brand).

1.2 Sainsbury’s are pleased to be able to respond to the committee’s inquiry on Fair Trade and Development and would welcome the opportunity to give oral evidence to the committee.

1.3 Our response provides you with some information about Sainsbury’s approach to ethical and Fair trade production and the role of supermarkets in supporting ethical and fair trade production.

2. SAINSBURY’S COMMITMENT TO ETHICAL AND FAIR TRADE PRODUCTION

2.1 Sainsbury’s have a long history in supporting ethical and fair trade production. We were the first major retailer to stock the first Fairtrade marked product, Green & Blacks Maya chocolate in 1994 and recent research by AC Nielson concludes that we currently sell more (in terms of volume) Fairtrade products than any other retailer.

2.2 Wherever our suppliers are, either in the UK or overseas, we expect them to conform to our Code of Conduct for Socially Responsible Sourcing. This sets out the labour standards we expect our suppliers to meet, including fair terms of trading, protection of children, worker health and safety, equal opportunities, freedom of association, freedom of employment and hours of work and wages. We are also founding members of the Ethical Trading Initiative and their Base Code forms a key part or our supplier’s code of conduct. We are also founding members of Sedex—an internet based system that enables best practice exchange of data on working conditions in the supply chain.

2.3 Sainsbury’s sells more Fairtrade products in volume and sales than any other retailer in the UK, accounting for a quarter of the value of Fairtrade products sold through major retailers. The value of Fairtrade products sold in Sainsbury’s in 2006 was £55 million, up 90% on the previous year and includes over 120 lines of Fairtrade products.

2.4 Sainsbury’s is the first UK retailer to work to convert its entire banana range to 100% Fairtrade. 75% of roses sold at Sainsbury’s are Fairtrade. 60% of Sainsbury’s customers buy Fairtrade products during their shop.

2.5 In 2006, Sainsbury’s placed the UK’s biggest ever single order of Fairtrade cotton to produce 200,000 t-shirts in support of Sport Relief.

3. ROLE OF SUPERMARKETS

Why are Sainsbury’s supporting ethical and fair trade production?

3.1 Sainsbury’s are committed to working with suppliers in their efforts to source sustainably throughout the supply chain. We aim to be genuine partners with these suppliers, encouraging them to follow our best practice and supporting them in their efforts to maintain high ethical standards.

3.2 Our customers have greater awareness of fairtrade than ever before and demand for increased range of products is increasing. As a customer focused business, we must respond and meet demand. Research carried out by TNS shows:

60% of customers purchase a Fairtrade product during their shop.52% of our customers state: “I think we should all try to buy more fair trade products” (market average is 50%).

45% of our customers state: “I feel good about buying fair trade products” (market average is 42%).

How easy is it for customers to choose fair trade production?

3.3 The marketing around the Fairtrade mark has been very successful and there is high recognition among customers. Its position on front of pack has also enabled customers to make an informed choice, and Sainsbury’s is committed to supporting through marketing and promotions Fairtrade products throughout the year. We have attached some examples of advertising as an appendix.
What impact is retailers’ support for fair trade having in developing countries?

Sainsbury’s and Bananas

3.4 Our recent announcement to convert our entire banana range to Fairtrade by July 2007 will create a social premium of about $7.8 million in 2007, which growers and their communities will be able to put towards educational and medical facilities and environmental projects.

3.5 It will be an increase of over $5.9 million on 2006 figures. This support for banana growers goes back nearly half a century.

3.6 The countries to benefit from our move to 10% Fair trade bananas are those who we currently source from—the Windward Isles (St Lucia and St Vincent), the Dominican Republic, and in addition from this year, Columbia and Costa Rica.

3.7 One example is the support Sainsbury’s has been giving to the Windward Islands in establishing itself as a major source of Fairtrade bananas, which now make up about 10% of production.

3.8 There was concern that once trade barriers were lifted, the Windward Islands would struggle to compete with larger plantations in Central and South America. As a result, Sainsbury’s, with its supplier the Windward Islands Banana Development and Exporting Company (WIBDECO), is working with the governments of each island to modernise and simplify production and to find other products the islands’ farmers can grow which would sustain their economies.

3.9 Sainsbury’s approached one of its other banana suppliers, Mack Multiples, to see if they would be interested in getting involved in initiatives to help the Windward Islands remain competitive once the EU legislation is introduced. It was decided that a collaboration of Windward Island suppliers would be more effective than competing individually. The combined focus has helped WIBDECO reduce costs, leaving them in a stronger position to survive.

Sainsbury’s and Cocoa

3.10 Sainsbury’s has ordered 40 tonnes of Fairtrade cocoa to produce over eight million chocolate squares that will be included in Comic Relief’s famous Big Red Nose in 2007.

3.11 The chocolate will be made with cocoa beans bought from Kuapa Kokoo—a farmers’ co-operative in Ghana. Kuapa Kokoo will receive a social premium of $6,000 to invest in projects to improve family and village life. These include education, healthcare and drinking wells. The amount could cover the cost of installing a village well that will provide enormous benefit to the entire community within a two to three mile radius.

3.12 Kuapa Kokoo co-owns Divine Chocolate Ltd, the company behind Dubble and Divine chocolate, which means the farmers not only get a Fairtrade price for their cocoa, but can also share in the profits of the company too.

February 2007

Supplementary memorandum submitted by Sainsbury’s plc

Following my submission of oral evidence to the International Development Committee on 13 March 2007, I promised to write regarding the two specific aspects raised by Richard Burden—the use of independent auditors to inspect our suppliers and examples of how we work with our suppliers to ensure workers have freedom of association.

1. The Use of Independent Auditors to Inspect our Suppliers

In answering this question, I thought it would be helpful if I outlined our approach to ensure the ethical treatment of workers in our supply chain. Wherever our suppliers are, either in the UK or overseas, we expect them to conform to our Code of Conduct for Socially Responsible Sourcing. This sets out the labour standards we expect our suppliers to meet, including fair terms of trading, protection of children, worker health and safety, equal opportunities, freedom of association, freedom of employment and hours of work and wages. We are also founding members of the Ethical Trading Initiative (ETI), an alliance of companies, non-governmental organisations (NGOs) and trade union organisations. It exists to promote and improve the implementation of corporate codes of practice, which cover supply chain working conditions.

In the rare occasions when issues around the treatment of workers arise, we find that it often results in a more constructive outcome for the workers of the company involved if we work with the supplier and help them to resolve the issue rather than de-listing them. However, we do reserve the right to strike off those suppliers who consistently fall below agreed standards and will take action against those found to be in violation of our agreed code of practice on treatment towards workers and the ETI’s Base Code.
In 2004 we became founder members of Sedex (Supplier Ethical Data Exchange), an internet based system for facilitating the effective sharing of ethical audit data. It has potentially significant benefits for producers in that it has helped harmonise standards and strip out duplication.

As part of this commitment to socially responsible sourcing, we also use independent auditors to inspect our suppliers. In 2005 we were instrumental in getting the major audit companies together to agree a common standard for auditing which ultimately led to audit companies becoming members of Sedex. Seven organisations are currently in this membership category—ITS, SGS, CSCC, Bureau Veritas, WIETA, Africa Now and Verite[acute]. In specific regards to Mr Burden’s question about the cotton supply chain visit, we can confirm that in this instance, we used ITS.

2. EXAMPLES OF HOW WE WORK WITH OUR SUPPLIERS TO ENSURE WORKERS HAVE FREEDOM OF ASSOCIATION

Fairtrade banana conversion and Costa Rica:

We have worked with Banana Link on labour issues in Costa Rica on which, in the past, there appeared to be very little progress. These primarily revolved around the willingness of suppliers there to truly engage with trade unions. As I said at the oral evidence session and have detailed above, we have always adopted a stance of working with our existing suppliers, wherever possible, because we feel we can ensure a positive outcome for the workers if we work with the supplier and help them to resolve the breaches in our Code of Conduct rather than de-listing them and in this instance we used conversion to Fairtrade as a catalyst for change.

A senior Sainsbury’s manager drew up a significant project plan to address the necessary planning, obstacles and challenges of scale, along with two on the ground meetings in Costa Rica to help facilitate dialogue and move the process forward. We managed to bring together the relevant stakeholders and set about a process to ensure that our supplier is engaging with the trade unions locally and that workers are being offered the representation that they deserve and will serve them well.

UK strawberry pickers:

Our supplier S&A Produce in Herefordshire employed 4,000 migrant workers to pick strawberries. Working with S&A and the Transport and General Workers Union (T&G), we have agreed a substantial plan to ensure that workers are offered the representation that they have a right to. Not only did we chair the first remediation meeting with S&A and the T&G, but also held a conference call for workers so that they could speak to us directly, anonymously and in confidence, enabling us to understand their perspective first hand. We have fully supported the subsequent remediation process and remain committed to seeing this through.

Judith Batchelar
Director of Sainsbury’s Brand

March 2007

Memorandum submitted by Starbucks Coffee Company

1. INTRODUCTION

1.1 Starbucks Coffee Company welcomes the opportunity to contribute to the International Development Select Committee’s inquiry into Fair Trade and Development.

1.2 Since 1971, Starbucks has committed itself to doing business in a different way. We want to be a good neighbour in the areas where we operate and a good partner with the farmers that grow our coffee. Though we purchase only 2% of the world’s coffee we recognise the importance of a sustainable supply chain. At Starbucks, we understand that for us to continue to grow, the farmers who grow our coffee will also need to have long term success.

1.3 Starbucks has an integrated sustainable approach to coffee sourcing:

— We pay premium prices

— By paying premium prices we help raise the incomes of farmers. In fiscal year 2006, the average per pound price we paid for the coffee we purchased was $1.42, a significant increase over the $1.28 average per pound we paid in 2005.
— We seek long term relationships
   — This gives farmers and their families economic certainty and predictability.

— We provide access to affordable credit
   — We invest in loan funds helping farmers who may run short of cash during a crop cycle. These loans can also be used to invest in their farmlands. For example, Starbucks recently announced that, through its relationship with EcoLogic, it had increased the loans it provides to East African farmers by US$1 million, in addition to the US$9.5 million previously provided.

— We collaborate with farmers to improve agricultural techniques
   — By working directly with farmers to develop sustainable and responsible practices, we can help raise the quality and premium of the coffee they grow and process. We currently have a Farmer Support Centre in Costa Rica to help farmers maintain and improve the quality of their coffee and recently announced plans for a Farmer Support Centre in East Africa.

— We encourage participation in Coffee and Farmer Equity Practices, CAFE Practices
   — CAFE Practices is a set of independently verified, socially responsible coffee buying guidelines that ensure the sustainable production of high quality coffee by addressing social equity, environmental sensitivity and economic transparency throughout the supply chain. In fiscal year 2006, 155 million pounds (70 million kilograms) were CAFE Practices certified, a year-over-year increase of 100%. This represents 53% of the total coffee purchased by Starbucks. Those farmers that are verified become preferred suppliers to Starbucks and receive a premium, thus providing farmers and their families with predictability and certainty.

— We purchase certified and conservation coffee
   — We are the largest purchaser of Fair Trade Certified coffee in North America and one of the largest in the world. We purchased 18 million pounds (eight million kilograms) of Fair Trade certified coffee which represents 14% of all Fair Trade coffee imports. We also buy organic and conservation coffee, in fiscal year 2006 purchased 12 million pounds (five million kilograms) of certified organic coffee. Specifically, in the UK Fair Trade Certified coffee is available in all stores, everyday.

— We invest in social development projects
   — We work with coffee farmers, suppliers, governments and non-governmental organisations (NGOs) to help fund schools, medical clinics, bridges, reservoirs, clean-water sources, and other projects that benefit coffee growing communities. For example, we have invested more than $4.2 million in projects in Africa. We’ve partnered with groups including CARE, Oxfam, WaterAid, African Wildlife Foundation, and EcoLogic Finance.

1.4 For over 35 years, we have worked to source our coffees in an ethical way, building long term relationships with farmers, offering Fair Trade Certified coffees to our customers, leading the industry in innovative, ethical buying practices through CAFE Practices, and making investments into the coffee growing regions of the world. We are not perfect. There is much more to do. However, through this integrated approach we believe that Starbucks is positively contributing to the livelihoods of farmers in 24 countries around the world—creating sustainability for coffee farmers and a sustainable business for Starbucks.

2. BACKGROUND ON STARBUCKS COFFEE COMPANY

2.1 Whilst not all the issues set out by the Committee for this inquiry are pertinent to Starbucks, we have attempted to answer below any specific questions where we feel we can make a useful contribution to your inquiry. However, before addressing these specific questions, we thought it would be useful to first provide the Committee with some background on Starbucks and how we source our coffee. Further, for clarity throughout this submission when we refer to Fair Trade we are referring to Fair Trade Certified coffee and associate organisations.

2.2 Starbucks has been in the specialty coffee industry for over 35 years, we buy, roast and serve premium quality Arabica coffee. We operate in 40 countries and employ over 135,000 “partners” (employees) worldwide. In total, we purchase approximately 2% of the world’s coffee. We opened our first store in the UK in 1998. Today, we have more than 500 stores in the UK, employing over 8,000 full and part time people. We recognise the relationship between our success and the strength and vitality of the communities we touch, be that around our stores or in the communities where our coffee is grown.
3. **What Has Been the Impact of Donor Funding for Fair Trade?**

3.1 Our core purpose is to provide a high quality cup of coffee. We are committed to doing this in an ethical and sustainable way and as such we contribute funds and resources, however, we do not define ourselves as a donor funder.

3.2 Starbucks makes a considerable contribution in the developing countries where we purchase coffee through our ethical and sustainable approach. We have a shared goal with the Fair Trade movement to help ensure that farmers receive a fair price for their coffee and have improved access to international markets.

3.3 Starbucks has many long standing relationships with coffee cooperatives, farms and supply networks of all sizes and scale, whilst the Fair Trade coffee model focuses on smallholder farmers belonging to cooperatives and associations. Many of our relationships pre-date the Fair Trade movement and are excluded from this Fair Trade system. Despite this, Starbucks is the largest purchaser of Fair Trade Certified™ coffee in North America and one of the largest in the world.

3.4 In fiscal year 2006, Starbucks’ global purchases totaled more than 18 million pounds (eight million kilograms) of Fair Trade Certified™ coffee, representing approximately 14% of global Fair Trade Certified™ coffee imports and about 30% imported into the United States. In the same fiscal year, Starbucks provided more than US$900,000 in Fair Trade social premiums through the price we paid for Fair Trade Certified™ coffee. These funds were redistributed back to the Fair Trade cooperatives we purchased from to support the local community projects decided upon by a general assembly of members.

3.5 Starbucks will continue to work with various Fair Trade national initiatives to promote and market Fair Trade Certified™ coffee products in our stores around the world. We believe these efforts will help to further increase customer demand and sales of Starbucks Fair Trade Certified™ coffees.

3.6 We also invest in a number of social development projects in the countries where we purchase coffee. In Africa, for example, to date, we have invested more than $4.2 million in projects to help improve African coffee communities, which in turn, helps farmers do business better. Some of our specific work in Africa includes:

- Starbucks and the African Wildlife Foundation collaboratively launched the African Heartland Coffee Project in January 2005. The three-year project is focused on helping farmers improve the quality and quantity of Kenya coffee, introducing sustainable growing and processing best practices as well as supporting the protection of wildlife and biodiversity conservation. The project was made possible by a $600,000 commitment from Starbucks, which included a contribution of $187,000 to AWF in fiscal 2006. This has resulted in Starbucks purchasing the first container of high quality coffee at a premium price.

- The Starbucks Foundation has committed $1.12 million over three years beginning in 2005 to support Water Aid’s plans to provide all 22 villages in Menge Woreda in Ethiopia with access to safe water, effective sanitation, and the hygiene education necessary to make the best use of these facilities. Located in northwestern Ethiopia near the Sudan border, Menge Woreda is a remote and marginalised region of one of the poorest countries in the world.

- Starbucks has supported CARE, an international humanitarian and development organisation, for 15 years with grants totaling more than $3 million to coffee growing regions including Costa Rica, Guatemala, Indonesia and Ethiopia. In fiscal 2007, Starbucks committed more than $500,000 to CARE, to fund a three-year programme that will improve economic and educational prospects for more than 6,000 people in rural Ethiopia’s coffee growing regions.

- Starbucks works with several social investment organisations to make loans available to coffee sourcing communities. In 2005, EcoLogic Finance provided the Sidamo Coffee Farmers Cooperative Union in Ethiopia a $400,000 loan. Starbucks provided the capital funds that EcoLogic used to finance the loan. The loan is enabling the cooperative to provide services to its members, including marketing assistance in developing producer/buyer linkages; direct export of members’ specialty coffee; coordination of warehousing services, processing, and transport; promotion of high-quality coffee production; field-based training and education programmes; and access to savings and credit services. In fiscal 2006, we increased our overall loan commitment by $1 million to EcoLogic, bringing Starbucks total commitment to micro-financing in global coffee-growing regions to $6 million. We also continued our $1 million loan commitment to Calvert Foundation and $2.5 million loan commitment to Verde Ventures, a loan programme managed by Conservation International.

3.7 We also opened a Starbucks Coffee Agronomy Company (Farmer Support Centre) in Costa Rica two years ago to work more closely with coffee farmers and suppliers from Latin America, implement the guidelines for CAFE Practices and help farmers maintain and improve the quality of their coffee. Having a presence there has also allowed us to have closer relationships with suppliers and gain greater insight into the production of high-quality, sustainable coffee. We recently announced plans for a Farmer Support Centre in East Africa and we also intend to double our current sourcing from East Africa in the next two years.
4. HOW BEST CAN DONORS HELP TO DEVELOP FAIR TRADE CONSUMER MARKETS?

4.1 We believe there is a role for companies like Starbucks to promote ethically sourced and fair trade goods. Starbucks will continue to work with various Fair Trade national initiatives to promote and market Fair Trade Certified™ coffee products in our stores around the world. We believe these efforts will help to further increase customer demand for Fair Trade Certified™ coffees.

4.2 We believe our stores are a great vehicle for communicating to about one million customer visits a week in the UK about good coffee sourcing and we have a strong tradition of doing this. We were a key supporter of Africa 05 and this February we held “Good Coffee Day” which focused on sharing our coffee sourcing approach with our customers. Further, we have a long history of using our stores as a vehicle for raising the profile of Fair Trade Fortnight. Currently, we are promoting awareness of Fair Trade Certified coffees through posters and leaflets broadcasting our Fair Trade offerings and partners will be undertaking coffee tastings of Café Estima Blend Fair Trade certified coffee.

4.3 As we grow, we will continue to use our stores to promote the coffee growing regions we buy from, and the ethically sourced coffees we provide our customers.

5. HOW CAN AID BE MORE EFFECTIVELY MOBILISED TO HELP PRODUCERS IMPROVE THE QUALITY OF THEIR PRODUCE?

5.1 Starbucks is committed to a comprehensive approach to coffee buying that allows coffee producers to plan, develop and grow their business. We have a history of relationships engaging in public-private partnerships involving NGOs and the US donor agency, USAID focused on quality and social investment. For example, in 2001, in partnership with Conservation International, Starbucks developed CAFE Practices (Coffee and Farmer Equity Practices), a set of socially responsible guidelines that help ensure coffee quality and promote equitable relationships with farmers, workers and communities while helping to protect the environment.

5.2 Under CAFE Practices, Starbucks buys on a preferential basis from farmers who:
   - Meet prerequisites for high-quality coffee and commit to and demonstrate economic transparency. For example, a coffee exporter has to document and show exactly how much he or she paid to the farmers and wet mill owners.
   - Meet prerequisites for economic accountability to ensure the farmer is fairly compensated for the cost of producing high quality coffee.
   - Implement the social and environmental guidelines of CAFE Practices which include social responsibility around worker conditions, such as housing and fair wages; coffee growing and environmental leadership, such as reducing the use of chemical fertilizers and pesticides; and coffee processing, such as reducing the use of water and energy.

5.3 In addition, the entire programme is independently verified. CAFE Practices uses independent third party organisations to verify farmers’ practices and Scientific Certification Systems, an independent certification firm, to train and audit verifiers. Those farmers that are verified become preferred suppliers to Starbucks and receive a premium, thus providing farmers and their families with predictability and certainty.

6. IS THERE A ROLE FOR DONORS IN HELPING TO DEVELOP THE INTERESTS OF PRODUCER COMMUNITIES IN DEVELOPING COUNTRIES?

6.1 As outlined above we have a responsibility to the land and the farmers who produce our coffee and we are committed to ensuring the success of African coffee farmers because our success is linked to theirs. In short, this includes paying premium prices for our coffee, also investing in loan funds, and encouraging participation from coffee farms of all sizes in CAFE Practices (Coffee and Farmer Equity Practices). Finally, we purchase conservation (shade grown) and certified coffees, including organic and Fair Trade Certified™.

7. STARBUCKS COMMITMENT TO AFRICA

7.1 Starbucks is firmly committed to Africa and African coffees are very popular with our customers.

7.2 As mentioned above, to date, we’ve invested more than $4.2 million in projects to help improve African coffee communities, which in turn, helps farmers do business better. Our social and economic partnerships in Africa have included programmes with CARE, Oxfam, WaterAid, African Wildlife Foundation, and EcoLogic.
7.3 We recently announced that we would double our purchases from East Africa. Starbucks will also provide technical support and capacity building to farmers through a Farmer Support Centre that will open in East Africa, similar to the one currently in operation in Latin America. The Farmer Support Centre will be staffed with agronomists who will work with farmers to improve quality, yields and prices received. Starbucks will also expand its micro-credit facilities in East Africa to help farmers invest in their farms.

7.4 Specifically, with respect to Ethiopia, between 2002 and 2006 Starbucks increased its Ethiopian coffee purchases by nearly 400% which translates into incomes and jobs for farmers and their families. Recently the Government of the Federal Democratic Republic of Ethiopia and Starbucks recognised their shared interests and responsibility in the sustainability and growth of the Ethiopian coffee sector.

7.5 The Government of Ethiopia and Starbucks have agreed to work together in their shared vision to increase Ethiopian farmer incomes and enhance the sustainable production of fine coffee. Both the Government of Ethiopia and Starbucks recognise that there may be differences in approach to achieving this shared vision. Starbucks respects the right and choice of the Government of Ethiopia to trademark its coffee brands and create a network of licensed distributors. Starbucks will not oppose Ethiopia’s efforts to obtain trademarks for its specialty coffees—Sidamo, Harar/Harrar and Yirgachefe—and its efforts to create a network of licensed distributors.

7.6 Both the Government of Ethiopia and Starbucks will continue to strengthen their partnership and engage in consultations on strategies to improve the lives of Ethiopian coffee farmers and their families. Strong partnerships between the Government, coffee companies, donors and other stakeholders are critical to the growth of the sector.

8. **Do Existing Government Guidelines on Procurement of Ethical and Fair Trade Products Provide an Enabling Environment for the Development of This Market and the Opportunities for Producers?**

8.1 It is important that there is a commonality of approach between governments and companies. From our own experience, we believe the most effective way of providing an enabling environment for the development of this market and improving the opportunities for producers is by helping to ensure that farmers and their families have long term success.

9. **What is the Role of Supermarkets, Retailers and Businesses in Supporting Ethical and Fair Trade Production?**

9.1 We believe we have a key role to play in supporting ethical and fair trade production through sustainable coffee purchasing such as CAFE Practices. We are keen for others to adopt similar sourcing policies as evidenced by our commitment to work with the Fair Trade movement to communicate key findings and support a multi-pronged approach to ethical, sustainable coffee purchasing. As previously referenced in the UK, we are key supporters of Fair Trade Fortnight.

9.2 We will continue to play a role in fair trade organisations, share our learnings around CAFE Practices and communicate our approach to coffee sourcing to our customers.

10. **In an Increasingly Crowded Ethical Marketplace How Can Consumers be Supported to Distinguish Between Different Fair Trade Brands, Labels and Codes?**

10.1 We recognise that there are many different sustainable programmes; Fair Trade, CAFE Practices, shade grown just to name a few. However, we believe today, that in order to support the breadth, diversity and complexity of farming growing communities and farming methods throughout the world, this combination of approaches is necessary. It is incumbent upon retailers, such as ourselves, to always seek not only to purchase in a sustainable fashion but importantly clearly communicate this approach to our customers.

11. **Corporate Social Responsibility Report**

11.1 For your reference, we have also included an advance copy of our 2006 Corporate Social Responsibility Report, which further outlines our activities to operate in an ethical and sustainable way. This report will be released in March 2007.

*February 2007*
Memorandum submitted by Tesco Stores Ltd

FAIR TRADE AND DEVELOPMENT

1. Tesco and Fairtrade

1.1 Tesco are pleased to support Fairtrade and to offer the largest range of Fairtrade products of any of the major supermarkets.

1.2 We recognise the important role that Fairtrade can play in bringing stability to many suppliers in developing countries, and the role that we can play in providing access to Fairtrade goods to millions of customers.

1.3 We currently stock 137 Fairtrade lines of which 30 are Tesco own label products. Our range includes own-brand roses, mangoes, avocados, citrus fruit and cookies and is one of the largest in the UK.

1.4 We continue to work with the Fairtrade Foundation to bring new own-brand and branded products to our customers. We were delighted to be the first UK retailer to offer Fairtrade basmati rice, brazil nuts and mixed peanuts and raisins. Recent additions to our range include new varieties in existing categories, such as teas and coffees, cashew nuts and own label honey, as well as products in new categories, such as cotton wool, rice cakes, spices and ice cream.

1.5 We are also launching an exclusive line of Katherine Hamnett organic and fair trade clothing. The “Choose Love” collection will initially launch with 18 organic and fair trade lines available for men, women and children but we hope to see it grow further. This premium brand reflects the quality of Katharine Hamnett’s design but will retail at affordable prices and will represent a significant step towards bringing ethical clothing into the mainstream.

1.6 We are currently running an eight week promotion offering double Clubcard points on all Fairtrade products. When we launched “Green” Clubcard points to encourage customers to reuse their carrier bags we had a fantastic customer response—with 300 million fewer bags being given away since August last year. We hope that this promotion will have a similar impact, encouraging our customers to try more Fairtrade products.

1.7 To coincide with Fairtrade Fortnight this year we are offering 25% off a range of Fairtrade products and dedicated special promotional space at the end of aisles in around 100 of our largest stores. We have also been offering customers the opportunity to sample Fairtrade products such as chocolate and nuts in our large stores, as well as offering vouchers to Fairtrade groups to hold tasting sessions.

1.8 To help raise customer awareness, we are sending out a Clubcard mailing, including vouchers for Fairtrade, to 50,000 customers. We have also included a feature on Fairtrade in our Tesco Magazine, which has a readership of 4.5 million, profiling some of the suppliers of our Fairtrade products.

2. Our Customers

2.1 Customers are increasingly passionate about the personal steps they can take to help ordinary people around the world, and they expect our help.

2.2 Since the introduction of our own-brand Fairtrade range in 2004, we have seen large increases in sales of Fairtrade products.

2.3 Over 4.7 million customers shopped for Fairtrade products at Tesco over the last year.

2.4 Around 37,000 customers try Fairtrade for the first time every week in Tesco and in Fairtrade Fortnight last year, this rose to almost 57,000 new customers per week.

3. Suppliers

3.1 We believe that international trade is the key to helping hundreds of millions of ordinary people escape poverty and build better lives for their families. Tesco has strong employment and environmental standards and we are confident that trading with us can be an important force for good anywhere in the world.

3.2 Although we have a major economic impact, we cannot alone change the political and social conditions of the countries where we do business. What we can and must do, however, is ensure that everyone involved in our supply chain—and the communities they live in—truly benefits from their relationship with Tesco.

3.3 We help suppliers grow by providing a direct route to millions of customers, and we help them understand new trends, develop new products, and invest in technology and facilities. It is crucial for suppliers to know our commitment to be with them over the long-term, to give them a framework that allows them to invest. In fact, half of our suppliers (and 80% of our food suppliers) having worked with us for over five years. Continuity and long-term partnerships also enable our suppliers to invest in community crèches, schooling and sanitation.
3.4 By setting clear standards, auditing them to ensure they are complied with and supporting producers to invest to meet them, we can help raise the bar in developing countries; delivering safe working conditions, fair wages, reasonable working hours, and the right to join a trade union—often for the first time. We can see these improvements creating a ripple effect, with our suppliers also adopting high standards for other production.

3.5 We aim to act reasonably and responsibly in all our commercial and trading activities. As founder members of the Ethical Trading Initiative (ETI) we use their base code as our standard. The ETI Base Code covers the labour standards outlined in the ILO Convention, it states that employment is freely chosen, that freedom of association and the right to collective bargaining be respected, working conditions are safe and hygienic and that child labour shall not be used. It also details that living wages are paid, working hours are not excessive, no discrimination is practised, regular employment is provided and no harsh or inhumane treatment is allowed. We take the application and implementation of the code very seriously.

3.6 We were influential in establishing Sedex (Supplier Ethical Data Exchange), a web-based system that encourages businesses to share data on labour standards at production sites. This avoids duplication of assessments and allows inspection resources to be better targeted, reducing unnecessary costs for suppliers.

4. Case Studies

Fair Trade Alliance Kerala

4.1 Fair Trade Alliance Kerala (FTAK) is located in Kerala, a state in south west India, with its members spread across six hilly districts mostly in the northern regions of Kasargode and Kannur.

4.2 FTAK was set up in January 2006 by three organisations: Malabar which is a farmer support organisation which mobilises the growers; INFACT which is an NGO working on development programmes which provide co-ordination and works with Fairtrade Labelling Organizations International; and Elements a company involved in the production and marketing of organic products in Kerala, which oversees processing and marketing.

4.3 Within FTAK representatives of Panchayats (village councils) are elected on to one of three district committees—a third of those elected must be women. Representatives of the district committees are then voted on to the FTAK Regional Committee. The main board of FTAK comprises eight farmers plus one representative from each of the three founding organisations.

4.4 The farmers have received training in product quality, Fairtrade, and capacity building from Twin Trading and Equal Exchange representatives from the UK.

4.5 Tesco has recently started selling packs of Fairtrade natural cashew nuts, bringing vital income to these farmers.

COINACAPA Brazil Nut Gatherers, Bolivia

4.6 Cooperativa Integral Agroextractivista Campesinos del Pando (COINACAPA) was founded in 1998 on the initiative of an Italian NGO based in La Paz the Asociación de Cooperación Rural Africa Y América Latina. Based in Pando, a very poor region in Bolivia, COINCAPA’s brazil nut gathering enterprise started with 15 families from three different communities and now has 308 families from 33 communities.

4.7 In five years COINACAPA grew its business from selling 16,000kg of processed nuts—or one container—to 126,000 kg. In 2006 the aim was to double this, working with Equal Exchange and Twin Trading. This has been achieved thanks to the huge success of the nuts as an own label Fairtrade product available in more than 600 Tesco stores.

4.8 The gatherers used their first premium money to gain access to basic health care for all 308 families. They decided to use the money to pay for a private insurance to enable them to use good doctors and services for the first time in their lives. This included 70% cover for major surgery. Premium money has also been used for the construction of payoles—places to keep nuts safe from water, animals, petrol, chemical contamination to ensure the quality of the nuts is maintained. Here they can be safely stores, cleaned and selected for export.

Fairtrade Bananas, Dominica, The Windward Islands

4.9 The Windward Islands Farmers’ Association began working with Fairtrade in the 1990s. They set up Fairtrade Groups on each island and began shipping Fairtrade bananas to the UK in July 2000.

4.10 In 2001, the first full year of Fairtrade sales, the Windwards shipped 4,700 tonnes of Fairtrade bananas to the UK, with an estimated retail value of £7 million. By 2005, this had grown to 25,500 tonnes worth £26 million. The percentage of Windward Islands bananas sold to the Fairtrade market has grown from 30% in 2004 to over 80% in 2006, with Dominica now selling 90% of its bananas to Fairtrade.
4.11 The total social premium generated by Tesco through the sales of Fairtrade bananas from Dominica was US$883,400 in 2005 and approximately US$322,500 for the period January to July 2006. Some of the community projects undertaken in 2005–06 include a Medical Store at the Princess Margaret Hospital in Roseau, a school bus for Calibishie and a new pre-school in Bense in the north of Dominica.

Case Study 4: MASFA Groundnut Co-Operative, Malawi

4.12 The Mchinji Area Smallholder Farmers Association (MASFA) was formed by 206 farmers groups in 2001. MASFA is part of the National Association of Smallholder Farmers in Malawi (NASFAM), which acts as an umbrella organisation for smallholder farmer groups.

4.13 In 2002, MASFA started to sell groundnuts through NASFAM, thus revitalizing groundnut production in central western Malawi. In 2005, MASFA was Fairtrade certified and its first Fairtrade groundnuts were exported to Europe via Twin Trading. MASFA is made up from village based groups or “clubs”, normally of 10 to 15 farmers. These clubs deliver their produce to 50 Marketing or Group Action Centres for MASFA to sell.

4.14 Until the Fairtrade peanuts sales started in 2005, there were no peanuts exported directly from smallholders in Malawi. However, thanks to the beginnings of a Fairtrade peanut market, Malawi has seen a renewed interest in peanut growing. Seed demand has increased hugely by 68% in 2006–07 at the prospect of a new export business.

4.15 Thanks to sales of Fairtrade peanuts in the UK, life for villagers in Mchinji, Malawi, is also improving for the better. Boreholes are being dug, giving them access to fresh, clean water and making a huge difference to the lives of the women in the village. They no longer have to walk 5km a day to draw water, on top of working in the fields, preparing meals and caring for their families. The Fairtrade premium has had this almost immediate beneficial effect. This is on top of the fair price to farmers guaranteed by the Fairtrade Mark.

4.16 These nuts are being included in Tesco’s own label packs of Fairtrade peanuts and raisins and its new Fairtrade peanut, cashew and dried mango mix.

March 2007

Letter to the Chairman of the Committee submitted by Tesco Stores Ltd

Thank you for the recent opportunity to give oral evidence to the International Development Committee on behalf of Tesco as part of your inquiry into Fair Trade and Development.

As you will be aware, War on Want has since submitted a memorandum to the Committee and I wanted to take this opportunity to respond to the points it raises.

upholds the highest standards in sourcing from developing countries. Fair treatment of workers in our supply chain is extremely important to us. We demand clear standards of our suppliers, including that workers are paid a living wage, do not work excessive hours, that no threats or intimidation are practiced, and that workers have the freedom of association, the right to join a union, and the right to collective bargaining.

It is, however, clearly difficult to ensure that our standards are met by every supplier, in every place, at every time. That said, we do endeavour to do just that and part of our control system is a series of independent third party audits to assess compliance.

Any information that we receive that suggests our standards are not being adhered to is treated very seriously. Where we have a specific allegation we put additional audits in place to make a thorough check. So in the case of the Channel 4 programme where the allegations were specific, we immediately put in our auditors to the suppliers named. As a matter of fact they found no basis for the allegations.

Similar allegations had been made by War on Want which may or may not have been connected. We were unable to take the same immediate and direct action in this case because War on Want, whom we have at no point refused to meet, declined to substantiate their claims by telling us which suppliers their investigation involved. Nonetheless we extended our audits in Bangladesh more widely and have no reason to believe that War on Want’s allegations are well founded.

We would, however, be keen to carry out further audits, if necessary unannounced, if War on Want provide us with the names of the suppliers involved. We would also be pleased to discuss with them any practical suggestions they have of improving our systems.

It is not in our interests to have suppliers who do not meet their contractual obligations. We of course want to continue to make a contribution to the economy of Bangladesh, but we want to do so in accordance with both the spirit and the letter of the Ethical Trading Initiative.

In terms of the wider point about the failure of the system of auditing and of ethical codes of practice, as you will know, recent research from the University of Greenwich (commissioned by the Department for International Development) found a range of positive impacts created by the ethical codes of practice used
by UK supermarkets and others. In particular, researchers found higher wages, greater security of employment, better housing conditions, and better access to water and amenities at code-adopting farms. It would be a shame if such positive progress on the ground were ignored.

Finally, the Committee raised some questions during the oral evidence session relating to our approach to trade unions. I have sought to address these in the annex to this letter.

Emma Reynolds
Government Affairs Manager

10 April 2007

Annex 1

TRADE UNIONS

1. We support the right of all our employees to join a trade union. Around half of our UK employees are members of a union. Since 1998 we have had a pioneering partnership agreement with Usdaw, which has become a model for employer-union relationships in the UK. Staff Forums are held in all stores three times a year in conjunction with Usdaw.

2. As a founder member of the Ethical Trading Initiative we strive towards high labour standards throughout our supply chain by using the ETI Base Code as the standard with which our suppliers must comply. With respect to union membership, the ETI Base Code states that workers must have a workplace where freedom of association and right to collective bargaining are respected. Specifically the code states:

   — Workers, without distinction, have the right to join or form trade unions of their own choosing and to bargain collectively.
   — The employer adopts an open attitude towards the activities of trade unions and their organisational activities.
   — Workers representatives are not discriminated against and have access to carry out their representative functions in the workplace.
   — Where the right to freedom of association and collective bargaining is restricted under law, the employer facilitates, and does not hinder, the development of parallel means for independent and free association and bargaining.

3. We also require that as part of the process whereby suppliers are independently audited, worker representatives be included in opening and closing meetings, and that they are interviewed to ensure their views are taken into consideration.

4. We participate in a number of local and international working groups convened by the ETI to investigate specific issues, for example in the Bangladeshi garment industry. The working groups all have buyers, suppliers, trade unions, NGOs and government representatives involved.

5. With respect to the United States, Tesco will be opening a new chain of grocery stores in Southern California, Las Vegas and the Greater Phoenix area later this year called “Fresh & Easy Neighborhood Market”. We are several months away from large scale recruitment for our stores and distribution centre and are still finalising our plans. However, as with the other countries in which we operate, we are committed to creating a positive employment relationship with our people, including respecting their right to join a trade union.

Memorandum submitted by the Trades Union Congress (TUC)

FAIR TRADE AND ETHICAL TRADE

INTRODUCTION

1. The Trades Union Congress (TUC) welcomes the opportunity to submit evidence to the Committee. While the TUC will make references to the fair trade movement in this submission, it will concentrate on the relevance of the campaign for global trade justice and for ethical trade and attempt to explore the interlinkages between the three elements and the relationship between the local, the national and global levels of trade in consumer products—particularly food and garments.

2. The TUC was a founder member of the Ethical Trading Initiative in 1998 and, with the International Trade Union Confederation (formerly the ICFTU), and the two Global Union Federations most relevant to the ETI’s work—the International Textile, Garment, Leatherworkers Federation (ITGLWF) and the International Union of International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco
and Allied Workers’ Associations (IUF)—has been represented on its Board since then. We wish to register our thanks to Dfid for its continued financial support for the Ethical Trading Initiative, which was essential for its development and remains essential for its functioning.

3. The TUC supports the fair trade movement, has regular contact with the Fairtrade Foundation, and believes it is important to understand the relationships, similarities and distinctions between:

- the campaign for a just, internationally agreed, rules-based global trading system which will promote equitable, sustainable, employment-creating development, decent work for all, and fundamental human rights at work—the global trade justice agenda;
- the fair trade movement with its emphasis on stable, and possibly premium, prices paid to producers—the fair trade agenda; and
- the ethical trading movement which is an element of the corporate social responsibility movement the purpose of which (when undertaken in good faith) is to promote compliance in global supply chains with international labour standards and, at its best, mature systems of industrial relations which can ensure equitable distribution of the fruits of globalisation—the ethical trade agenda.

**The Ethical Trading Initiative, supply chain management and social auditing**

4. Consumers make choices about what they buy. For many, especially the low-paid, price is the key factor. For other, the price/quality relationship is key. Some consumers make choices on the basis of what they know, or believe they know about the environmental, social or human rights content of the product. The ethical trade movement originated in large part in the recognition by retailers and brands that trade unions, non-governmental organisations and consumers were demanding more information about the rights and conditions of workers producing the products they sold and greater certainty that those enterprises knew what was happening in their global supply chains. The need to measure what was happening against an agreed set of standards, rather than privately invented ones, led the ETI to develop a code of labour practice based unequivocally on the already internationally agreed—and public, not private—standards of the ILO. Increasingly, there is convergence in the content of codes among various multistakeholder initiatives in the field. Codes which do not incorporate the fundamental human rights at work proclaimed in the ILO’s eight core Conventions are no longer considered credible.

5. The ETI has become a leader in the ethical trading field and has attracted the attention of the ILO, which is eager to learn from ETI’s experience. ETI has a unique governance and membership structure involving numerous retailers and brands (including supermarkets which retail most of the food sold in Britain), the British and international trade union movement and a groups of development non-governmental organisations. The member companies, accounting for annual turnover of over £120 billion, have the potential to exert major influence on global supply chain practice. The ETI takes a rights-based approach and understands that sustained and sustainable improvement in labour practice requires a rights-based (and not paternalistic or charity-based) approach which must be anchored in mature systems of industrial relations. As such, it understands that workers in supply chains are not individual recipients of unilateral largesse, but are collective agents of sustainable progress.

6. One of the key contributions of the ETI to the global debate on ethical trading—and, we would suggest, to fair trade too—has been the collaborative development of credible systems of workplace social auditing. Its expertise in this area is another reason why its practice is of such interest to the ILO, which agreed, in its Governing Body session in November 2006, a coherent programme of work (in which the ETI is specifically mentioned) on corporate social responsibility, including, inter alia (and in line with the ICFTU 2004 Miyazaki Congress Resolution on CSR), work towards development agreed benchmarks against which the competence of private social auditors might be measured.

**Labelling**

7. Social auditing leads into the debate on labelling of products and badging of companies. The trade union movement has been reluctant to endorse labelling of products which attests to respect for labour standards because social auditing globally is not yet capable of making such assertions credibly—either auditing methodology is not yet adequate or because auditors are not sufficiently competent. It is common, for example, for social auditors to claim that workplaces in China are compliant with code requirements on freedom of association—in a country where free trade unions are forbidden to organise. Few social auditors yet have the skill to detect indirect discrimination, many do not understand what does and does not constitute child labour. The ETI’s recently published impact assessment noted that significant progress had been made in audited workplaces in matters such as safety and health and working hours, but on fundamental rights progress was far less evident.

8. Some labels may be credible—the Rugmark label on carpets made free from child labour is widely respected and has led to significant increases in the export of carpets from Pakistan; the American trade union movement has made wide use of its “union-made in the USA” label, attesting to products made under the auspices of a collective agreement. It is possible to tell consumers, as does fair trade labelling, that a particular price has been paid to the producer for the raw materials. It is possible to make verifiable
statements about the chemical content of a foodstuff. In general however, in the absence of a trade union and a collective agreement in the workplace, labelling the “human rights content” of goods as having been produced in conditions of respect for workers’ rights is unreliable. Only the presence of a free trade union and a collective agreement can offer such guarantees—the annual external social audit may fail to uncover violations and, even if the producer was code compliant at the time on an inspection, it might not be so by the time the product reaches the retailer’s shelf and is presented to the consumer as an “ethical” choice.

9. So while the trade union movement supports the fair trade movement’s labelling with regard to price, it believes that labelling against labour standards on fair trade products is as premature there as it is in ETI member companies. We do recognise that there is a demand from companies for recognition of what they are doing. Unfortunately, in the absence of collective agreements and mature industrial relations systems throughout their operations, the best that can be said is that companies have made a public commitment to work towards achievement of the code. The ETI’s annual reporting mechanism—which we believe provides a template for the introduction of a national social reporting system required by law—demonstrates the varying rates of progress. And without doubt, there are companies which make public claims about their “ethical” credentials which cannot be substantiated and are contradicted by their business practice in the global market.

Voluntary initiatives and regulation—global rules for a global economy

10. It is important to state at the outset that the TUC does not believe that voluntary action by enterprises or not-for-profit organisations is a substitute for the rule of international law or for the rule of good national law which is compliant with internationally agreed standards. It is the responsibility of states to negotiate binding global rules for world trade and to ensure that citizens are protected under the rule of law, that national law complies with international treaty obligations, and that national law protects effectively the rights of working people to freedom of association, to bargain collectively and to work free from forced labour, child labour and discrimination. And it is the responsibility of well-functioning, well-resourced labour inspectorates to ensure that the rule of law applies in workplaces. Social auditing by companies and associated code-compliance mechanisms may help promote employer compliance with the law, but they are no substitute for the role of the state.

11. The 1998 ILO Declaration on Fundamental Principles and Rights at Work commits all 179 Member States of the International Labour Organisation, as a constitutional obligation arising from the simple fact of membership of the Organisation, and regardless of ratification of the eight core Conventions concerned, to respect, promote and realize, in good faith, those fundamental human rights at work. The World Commission on the Social Dimensions of Globalisation and its follow up by the tripartite constituents of the ILO Governing Body have made clear that a key pre-condition for the construction of a sustainable social dimension to globalisation is the establishment of global policy coherence among and between the institutions of the UN common family, the international financial institutions and the WTO, so that all promote and do not undermine the aim of decent work for all and the universal realisation of fundamental human rights at work. That view has been endorsed not only by regional meetings of labour ministers but also by the UN General Assembly at the September 2005 and the UN Ecosoc in July 2006. The challenge now is to ensure that policy coherence becomes a reality.

Multinational Enterprises

12. While it is governments and states which have the responsibility to ensure and enforce the rule of good law, multinational enterprises are guided by a number of promotional instruments, notably the OECD Guidelines—a regional instrument which needs reinforcing; and the sole international instrument in the field, the ILO Tripartite Declaration on Multinational Enterprises and Social Policy, which dates from 1977 and needs more active support. The ILO will be marking the 30th anniversary of the Declaration during 2007 and the anniversary offers Her Majesty’s Government also an opportunity to support more actively the effective implementation of the Declaration. Other initiatives, such as the UN Secretary General’s Global Compact, may provide a forum for debate, but they remain a statement of principle without obligations or mechanisms for implementation.

13. So while there are no comprehensive set of binding and enforceable global regulation of the behaviour of multinational enterprises, MNEs have had, nonetheless, an overwhelming influence in the shaping of the current, grossly inequitable and unsustainable “jobless-growth” model of globalisation, which has seen disparities in wealth and poverty in and between nations not decrease but grow. While some developing country economies, most obviously the world’s biggest dictatorship, China, and its largest democracy, India, have experienced substantial economic growth, in neither case have the fruits been equitably distributed and Africa, with the exception of a handful of countries, has been largely excluded.

14. Britain’s food retailing is the most concentrated in Europe, with the top five supermarket chains—Asda, Morrison, Safeway, Sainsbury and Tesco—controlling 70% of all food purchased. It is estimated that £1 in every £8 spent in shops by British consumers passes through the cash registers of Tesco. That is huge power in the global and national market. The UK also enjoys a pre-eminent position in European food manufacturing, with 13 of the top 20 continental food manufacturers being British-based.
15. The inequality between the power of multinational enterprises and brands, in whose favour existing global trading rules operate, and the de facto position of choiceless supplicants or willing collaborators experienced by the elites that govern numerous developing countries does indeed mean that, particularly in the agricultural and textile, garment and leather sectors, the good are being undercut by the bad and the bad by the worst. There are, of course, companies which are demonstrating considerable commitment to promoting respect for workers’ rights in their global supply chains, and which would be prepared to do more if they were not constantly confronted with the short-termism which undermines a more progressive approach to their purchasing practice. We have repeatedly called for a national debate to counter the short-termism of city analysts who value shares on the basis solely of quarterly returns. Such pressures hinder the development of a common agenda for long-term investment in stable supply chains, training in skills, investment in plant and technology, greater productivity and competitiveness—and the development of mature systems of industrial relations which underpin such approaches.

The current model of globalisation is not protecting rights at work: rights and price, where ethical and fair trade meet

16. For all the efforts of the fair trade movement and the ethical trade movement, which have had marginal effects in global terms, for many poor working people in many developing economies their working lives are more precarious and the real value of their wages are lower than before. Some of the key reasons for the lack of progress towards fairer trade terms in the global market and towards universal realisation of fundamental rights at work in global supply chains can be located at that point where the fair trade and ethical trade agendas most obviously cross: the relationship between price, value and profit. The TUC does not demur from its position—and the fundamental position which lies at the heart of the ILO’s 1998 Declaration—that fundamental human rights at work cannot be dependent on levels of economic development. Indeed, were they dependent, they could not be described as universal, inalienable human rights. In an interdependent global economy there can be no global excuses for the persistence of slavery, of child labour, of discrimination at work, nor for the denial of trade union freedoms. The global economy and the international community do not lack the resources to ensure these rights are upheld. What they lack—and to an extent which makes them key drivers of globalisation and its rules and complicit in gross violations of the fundamental rights at work of the majority of the world’s working people—is a lack of political will.

17. The nexus of the two agendas—fair trade and ethical trade—can be summed up in the following anecdote: there is little purpose in the ethical trading manager of a multinational retailer, importer or brand visiting a producer on Monday, to demand that violations of the sourcing company’s code on wage levels, safety and health, discrimination, working hours, wages and collective bargaining are remedied as a condition of continued business if, on Wednesday, the buyer arrives to demand 400,000 t-shirts or pairs of sports shoes by the following week, for which, incidentally, the multinational intends to pay the producer 30% less per pair than last time. The result of such incongruity is that the local employer, in a desperate attempt to secure that and future contracts, and even if it is a breach of national law, will force workers, with the threat of dismissal, to perform excessive, probably unpaid, overtime—perhaps including the back-to-back shifts which have caused workers to collapse and die in Bangladesh; work may be outsourced to sub and sub-sub-contractors and homeworkers, underpinning the need for a mostly under-employed, precarious, unprotected and impoverished workforce to meet demand peaks and increasing risks to safety and health, of the employment of child labour, of underpayment of wages and of tax evasion. Underpinning all this, in the view of such employers (an example is the current and continuing anti-union violence in the Bangladesh garment sector) is the need to exclude from the workplace trade unions which would enable workers to defend themselves against such exploitation and abuse. And in numerous countries, governments are complicit in that repression—either through anti-union legislation or through an obdurate failure to enforce legislation which, on paper, protects workers’ rights.

18. For the ethical trade agenda to succeed, there must be coherence between the demands of codes of labour practice for respect for workers’ rights and retailer/brand policy on price and lead times. Of course, many local producer employers continue to make a good profit from their workforces—sometimes as a result of good management, industrial relations and business practice, often, in the labour-intensive, low value-added sectors, as a result of exploitative practices and denial of workers’ rights. But there are many whose margins are low. The fair trade movement has done much to publicise the threats facing small farmers and cooperatives in the face of falling coffee, tea, cocoa and banana prices. In the case of coffee, for example, processors and retailers have driven an expansion of coffee production into new countries, increasing competition and causing coffee prices to fall below subsistence levels. In the case of tea, what appears to Indian tea workers to have been an agreement among tea buyers to suppress auction prices has led to the collapse of the tea garden sector, especially in West Bengal, where the suffering has been immense, but also in Kerala.

19. In this debate it is proper to ask what percentage of retail price is labour cost, and what is the relationship between the constant competition to reduce retail prices (the “Walmart effect”), the vast and growing profits of multinational enterprises (including, for the purpose of this enquiry, British
supermarkets—Tesco’s profits for example, rose from £1 billion in 2001 to £2.2 billion in 2006 while it claims its retail prices fell by 15% during the same period), downward pressure on producer prices and the poverty wages of workers in global supply chains.

20. That is a key question too for the Ethical Trading Initiative, which numbers amongst its corporate members the majority of Britain’s major supermarket food retailers. Some among them have engaged with the fairtrade movement (for example, the Coop sources all its own-brand chocolate from the FairTrade certified Day Chocolate Company, part-owned by Ghana’s major Kuapa Kokoo cocoa cooperative: Sainsbury have decided to source all bananas it sells from fair trade suppliers) and other multinational enterprises such as Starbucks and Nestlé have increased substantially their purchasing of fairly traded coffee. Nonetheless, the fundamental question remains: are British retailers paying producers, in general, a fair price for the product, a fair price being one which permits—and indeed promotes—decent work and compliance with the ETI base code, or is fair pricing restricted to a few, beneficial but limited niches?

21. A central question therefore, is whether it is possible, and if so how, for the stable pricing mechanisms employed by the fair trade movement (for example, guaranteeing a cocoa price of £1,225 per tonne, even when the price falls as low as £500) to become mainstream pricing policies. And if retailers and brands can be persuaded to increase prices paid to producers—and maintain price stability—in the interest of social justice, sustainable development and economic growth and a fair globalisation, will they accept a slowdown or reduction in current rates of profit growth, or will they insist on passing on the cost to consumers? The TUC strongly supports investment, training and mature industrial relations which can lead to increased productivity and competitiveness—the paradigm of the world class workforce, in a world-class company, producing world-class goods in world-class working conditions. But we do not believe that the constant drive for cheaper produce, to which the Committee refers in its question is sustainable or coherent with the promotion of decent work for all. Poverty is not a route to development and there is, of course, little consolation for a now unemployed British garment worker in being able to buy a very cheap pair of jeans produced by impoverished and oppressed workers elsewhere if the consumer used to have a job making the jeans herself.

Linking trade and labour standards

22. Those concerns should not be interpreted as arguments for protectionism. The TUC accepts that, in a global economy, democracies which protect workers’ rights may have legitimate low-wage competitive advantage, especially in labour intensive, low-value added manufacturing or agriculture. We support increased access to global markets for goods produced in such countries. However, we remain profoundly concerned by the unfair competitive advantage presented by those states which deny their working people their fundamental rights at work, thus artificially suppressing wage-costs below levels which the national economy can sustain. So we are just as concerned when jobs move from democratic Brazil, South Africa or India to China, for example, as we are when they move from Europe. And while, we recognise that China’s position in the global economy has become central, we do not believe that making workers redundant in developing country democracies in order to shift production to China, where workers rights are not respected and where they are unable to organise and bargain freely, can be described as ethical or fair. What the TUC wants to see protected are the fundamental rights at work of all working people everywhere—only that is the basis for fair competition in a global economy.

23. China, however, does demonstrate that protection of infant industry and significant investment in infrastructure are also key elements of global competitiveness. The protection of nascent industry against unfair international competition in countries such as South Korea and Malaysia were essential to kick-starting their rapid economic growth and development. Other developing countries also need both those in order to achieve fair access and competitiveness. So, for example, DFID’s support for the Ghana feeder-roads project (in which respect for the rights of the construction workers who built them was a central tenet) has helped farmers in outlying areas get their goods to market more quickly.

The crisis in world agriculture

24. Increased liberalization of trade in agricultural products over the past decade was supposed to bring benefits to all, but WTO negotiations have still failed to provide an acceptable way forward for justice in global agricultural trade. The only winners have been the global agri-food transnational corporations. These TNCs are driving the overproduction and export of staple crops from a handful of producer countries, driving down prices and eliminating millions of jobs. Subsidized overproduction has failed to provide decent work even for the agricultural workers in some of the world’s richest economies. For developing countries, “diversification” into flowers and “niche” products is being promoted as a solution to the collapse of agricultural commodity prices. It is in this context that increased market access for developing country exports does not address the fundamental problem.

25. The vast majority of agriculture workers worldwide are in poor countries that have been further impoverished under the impact of liberalized agricultural trade. Subsidies for agriculture have never been an option in these countries, and the few fiscal and policy tools for agricultural support they once possessed have been dismantled under pressure from the international financial institutions or are being eliminated to
conform with WTO rules. Domestic support for rebuilding agriculture in developing countries requires, at a minimum, the rehabilitation of tariffs, taxes (national and international) and trade management tools as legitimate policy measures. At the same time, sustained resources must be mobilized internationally to facilitate and support recovery measures to reverse the social and environmental damage arising from export-oriented intensive production methods and the rebuilding of agriculture to serve its primary function in fulfilling the right to safe, adequate and nutritious food under decent work conditions.

26. There must be an end to the system of export dumping. A concrete timetable must be established for the phasing out and elimination of export subsidies. Subsidies must instead be redirected towards support for socially and environmentally sustainable agriculture based on decent work.

Cheaper goods, higher profits, lower wages

27. Sir John Vickers, OFT Chairman, in the context of the findings of the enquiry into supermarket dominance of UK food retailing said that supermarkets had a clear responsibility to deal fairly with their suppliers and to honour the terms of their contracts and a continuing obligation to ensure that they comply fully with the OFT Code. But wider concerns about the growth of supermarkets and the effects on the rural economy, diversity of the local high street including planning, and the viability of overseas suppliers were not issues addressed by the Code or which fell within the competition and consumer remit of the OFT. Sir John’s view was that natural justice and common sense did not allow regulatory intervention in markets without proper evidence and that the OFT review has not yielded substantive evidence to show that the Code was being breached or that competition was being restricted. He believed that “Competition and straight dealing are the keys to the market working well for consumers.” (cf: OFT Press Release 3 August 2005: http://www.oft.gov.uk/News/Press + releases/2005/146–05.htm).

28. Whatever the perceived benefits to UK consumers of cheaper goods in the shops, the TUC believes it is evident that, nationally and internationally, it is workers who produce the goods (or used to produce them) who are paying the real price in inadequate wages. In Britain, recognition of the unacceptable exploitation of mainly migrant workers in the agricultural sector—and the damage it threatened to the reputation of the major retailers—led to the passing of the Gangmaster Licensing Act. The ETI played a key role in that development by acting as the meeting point of the trade unions, government, retailers and gangmasters. The UK should extend the benefits of that Act to all sectors by ratifying and implementing ILO Convention 181 (1997) on private employment agencies.

29. The Fair Trade Foundation in Britain has helped to draw public attention to the injustice of global commodity pricing. It has thus far, however, restricted itself to around 200 products (most notably coffee—worth £100 million per annum in the UK, tea, chocolate—worth £3.6 billion—and bananas) and to a small number of producers: the Fair Trade Foundation in the UK inspects a total of 200 producer sites worldwide. It seeks to target disadvantaged communities and organisations working with them and the TUC believes that fair trade principles can be especially helpful for working people in genuine cooperatives. We welcome the success it has had in maintaining imports of APC bananas into Britain and applaud the decision of Sainsbury’s to purchase all its bananas from fairtrade producers. At the same time, we recognise that Chiquita is the only banana multinational to have signed a global framework agreement with the IUF, and The Fair Trade Foundation has only recently adopted a “hired-labour” standard. While we agree that there is immediate benefit in choosing to spend premiums, for example, on community schools and clinics, it is not clear to us the extent of choice which workers in the relevant enterprises have about how premiums are spent. For example, can workers elect simply to have the premium distributed as higher wages? For most agricultural workers worldwide, increasing their appallingly low wages—very often below legal minima and regularly too low to be considered a living wage—remain their first priority. The international trade union movement would also argue that essential services—notably universal, free and quality basic education and health care, which are linked to the Millennium Development Goals—must be provided by the state as public services if they are to reach all citizens.

Tax matters

30. That in turn goes to the issue of formalisation of the economy and extending the national tax base—both of which are required for the development of infrastructure and public services, good governance and the rule of law. It is wholly inimical to any claim to support equitable development if MNEs prevent states from accruing the taxes required to fulfil their responsibilities towards their citizens. Enterprises should pay their taxes in full and on time and MNEs should not seek tax-breaks as a condition of investment in developing countries. There is nothing fair about poor people in poor countries subsidising through their direct or indirect taxes the business activities of the world’s richest companies—indeed poor people in global supply chains do that already through the contribution of their low wages to the profits of those MNEs.

31. The TUC and its affiliates, and the IUF are involved in discussions with the Fair Trade Foundation in order to seek a greater understanding in the fair trade movement of labour market and industrial relations matters. A significant contribution to development would be made if value-added processing of raw materials took place in the country of production. We recognise also that current market demands (for example the type of chocolate confectionery preferred by European consumers and the problems of
production in tropical climates) means that much processing will take place in industrialised countries, and trade union support for the fair trade movement would undoubtedly be even greater if all processing of fair trade products (including that which takes place in the industrialised countries in which fair trade products find their main market) were to take place in unionised workplaces. It is hard for trade unions to encourage members to purchase fairtrade products made in non-union workplaces, rather than non-fairtrade products made in large enterprises by their own members.

32. There may be genuine reasons why some products are processed in SMEs without collective agreements with unions than in larger, unionised plants: notably the relatively small production runs. We should, of course, like to see strong encouragement by the Fairtrade Foundation for a positive attitude by such employers towards social dialogue and mature industrial relations and continued efforts to organise all in the industry. At the same time, it should be possible for the major unionised processors to agree contracts to process fairtrade products.

The rule of law and public procurement

33. The private sector is not the only player in global markets. States play a major role through their procurement policies. There has been some confusion in Whitehall about the ability of the Government to include requirements for respect for workers' rights in procurement contracts. EU rules clearly permit such conditionality for sourcing within the EU and ILO Convention 94 on labour clauses in public contracts provides a global benchmark. In 1950, the UK became the first ILO Member State to ratify Convention 94; in 1982 it became the only Member State ever to denounce its ratification.

34. HMG buys £13 billion worth of goods and services annually, the wider public sector £125 billion. The NHS in England alone makes purchases of £15 billion per annum, its Purchasing and Supply Agency (PASA) accounting for £6.2 billion of that total. It is not sufficient for national and local government to purchase fair trade products for used in coffee machines and works canteens. Every public contract should require—as a condition of the contract itself—that the fundamental rights of workers producing the goods or providing the service are fully respected. The NHS, for example, purchases surgical instruments from suppliers in Sialkot in Pakistan, where the ILO has been engaged in supporting the removal of children from—highly hazardous—production to school. The British Government is a major contributor to the ILO's International Programme for the Elimination of Child Labour, but what is PASA doing directly to ensure, as the client, that its contractors respect fundamental rights? We urge public procurement agencies to explore their supply chains and to join, where appropriate, the Ethical Trading Initiative so that they can develop good practice in supply chain management.

The TUC's recommendations for action by HMG

Internationally:

- Support global policy coherence by ensuring that the UK's binding treaty obligations arising from ratification of ILO Conventions—notably the eight core Conventions and the priority Conventions on employment policy and labour inspection—are promoted consistently by all UK ministries in the international institutions in which they lead: including the Bretton Woods Institutions, the WTO, the United Nations and its specialised agencies.
- Enhance its support for coherence in ILO work on corporate social responsibility.
- Give far greater support to ILO work on labour inspection and the development of well-functioning national labour inspectorates.
- Reinigorate the debate on the Tobin tax to encourage the fiscal stability required for long-term investment and sustainable, employment-creating growth.
- Support reinvigoration of the WTO round with a recognition that the current structure of global agriculture is a key driver in the unsustainability and injustice of the current model of globalisation.
- Coherent use of EU GSP. Seek to extend GSP to all countries which fulfil their obligations under the ILO Declaration and where ratified, under the relevant Conventions. Seek withdrawal or denial of GSP to countries which do the opposite.

Nationally:

- Ban trade in goods made by forced labour (notably imports from the Lao Gai in China and all imports from Burma)—to be coherent that will also require a reconsideration of the current prison labour regime in the UK in line with the recommendations of the ILO Committee of Experts.
- Recognise that the UK remains the largest single source of foreign investment in Burma and forbid such investment which can only be used in joint ventures with the military junta, which uses forced labour as a pillar of its economic policy.
- Ratify and implement ILO Convention 94 of labour clauses in public contracts and use rigorously UK government purchasing power to promote fundamental rights at work. All public contracts should include compliance requirements on those points and they must be effectively monitored.
- Continue to support the ETI.
— Initiate a national debate on long-termism—perhaps including a national tripartite plus event to mark the 30th anniversary of the ILO MNE’s Declaration, linked to a national debate on respect for fundamental rights at work and fair global pricing as pillars of a fair globalisation.

March 2007

Memorandum submitted by Traidcraft

A. EXECUTIVE SUMMARY

1. Traidcraft is one of the leading Fair Trade brands in the UK, which fights poverty through trade through a combination of direct trading, capacity building, policy analysis and campaigning. Since its establishment in 1979 Traidcraft has developed a broad understanding of the development and commercial challenges which poor producers face in accessing sustainable markets. As a business as well as an NGO, it has extensive experience of the challenges for companies in marrying commercial imperatives with social objectives. Traidcraft has regularly engaged with DFID in this work, both through funding relationships and through policy dialogue.

2. Donor support—including from DFID—has been particularly important in the early stages of Fair Trade in two key areas: support to producers in developing countries and support for awareness raising in consumer markets. However, this funding has been ad hoc and has lacked a long-term strategy for engaging the private sector, including Fair Trade, in poverty reduction. The implications of this lack of strategic vision are twofold: firstly, the missed opportunity of using the fast growth of Fair Trade as a catalyst for change and secondly, the missed opportunity of multiplying the results of past investments.

3. Traidcraft therefore calls on HMG to develop an ambitious strategy for the private sector, with key performance indicators, and which has as its objective the improvement of the impact that trade has on poverty. Such a strategy should include an ongoing analysis of trends in mainstream international trade, in order to develop a baseline understanding, together with a detailed strategy for donor intervention and, finally, a commitment to policy coherence.

4. In developed countries donors should help strengthen consumer markets through grassroots engagement and increasing awareness of the Fair Trade concept. In developing countries, donors should foster the creation of in-country Fair Trade initiatives.

5. From the producer perspective, there are three priority areas for attention: the creation of new, credible standards, the facilitation of market access to new producers and the strengthening of existing standards and producer bases. There is a particular need to strengthen local and regional producer networks and expand the range of services they offer.

6. Support to Fair Trade, whilst invaluable in providing direct impact to millions of people, is necessarily only part of the picture. A truly enabling environment is required in which poor producer groups are supported in accessing markets on a sustainable basis. EU trade policy generally works against the interests of poor producers in developing countries, as can be seen in the current EPA negotiations, for example.

7. The entrance of supermarkets and retailers into Fair Trade has been very useful in delivering volumes and mainstreaming the concept in the UK. These moves are commendable and make a significant difference to the livelihoods of many people in developing countries. However commitment is varied, which is a source of controversy, and some retailers continue to seek to pass risk down the supply chain.

8. The proliferation of schemes and Fair Trade labels across the market has clearly created confusion in the minds of consumers. Improved public awareness of the pros and cons of different schemes is needed.

     Equally, government should be incentivising corporate practice that goes beyond the minimum, and not rewarding companies simply for doing no harm.

B. INTRODUCTORY REMARKS

9. Traidcraft welcomes this inquiry by the International Development Select Committee. It is well-timed, as there is a rapidly increasing interest on the part of consumers, business and producers in Fair Trade. There are now over 2,500 certified Fairtrade product and sales have been growing 40–50% annually for the last few years: in 2006 the estimated UK retail sales of Fair Trade products was £196 million. This makes the UK the largest market for Fair Trade in Europe.

10. Traidcraft is one of the UK’s leading Fair Trade organisations, with a mission to fight poverty through trade. Traidcraft trades with and supports small producers around the world where their circumstances effectively exclude or marginalise them from mainstream trade. Traidcraft also seeks to influence the wider trading environment through research, analysis and advocacy. Our work is conducted through an innovative partnership of a trading company (Traidcraft plc) and a registered charity (Traidcraft Exchange). This joint perspective enables Traidcraft to square the often competing demands of commercial opportunity and sustainable development.
11. Traidcraft PLC is one of the UK’s pioneering Fair Trade companies, with a turnover of over £19 million. It provides a route to market for marginalised producers, offering them terms of trade that promote security and facilitate longer term planning. Traidcraft PLC distributes more than 450 products fairly traded products to a highly aware customer base in the UK, with mainstream supermarkets occupying a fast growing niche in its distribution system.

12. Traidcraft Exchange is the UK’s only development charity specialising in making trade work for the poor. Its work spans capacity building amongst producers in developing countries, promoting market access for small producers (including into the UK market), policy development and advocacy. Through its Policy Unit, Traidcraft Exchange seeks to influence government policy and business practice in the North and the South to the benefit of the poor in the developing world.

13. Traidcraft believes that trade—if organised and regulated properly—can contribute to poverty reduction. Since its creation in 1979, Traidcraft has sought innovative solutions to market access. For example, Traidcraft was one of the four founders of Cafédirect; it established Shared Interest in order to enable producers to access pre-order financing; it was also a founder member of the Fairtrade Foundation and of the Ethical Trading Initiative, both designed in different ways to encourage mainstream companies to take steps to improve the impact of their supply chains in developing countries.

14. Traidcraft is also a pioneer in social accounting, by which companies seek to take account of their social and environmental impacts as well as their economic performance. Traidcraft PLC was the first public company to publish audited social accounts. In 2006 Traidcraft won the ACCA award for the Best Social Accounts. The commitment to the principles of transparency, accountability and responsibility in trade underpin all aspects of our business.

C. WHAT HAS BEEN THE IMPACT OF DONOR FUNDING FOR FAIR TRADE?

15. There is no doubt that the Fair Trade sector has seen extraordinary growth in recent years. Since 1998 sales of Fair Trade products in the UK have increased by 1,000%, with the estimated retail value of sales of Fairtrade products in 2006 being £196 million. More and more companies are developing Fair Trade lines, and recent trends to whole category switches (where a retailer converts all their products in a category to Fair Trade, as will happen with Sainsbury’s bananas in the course of 2007) are set to increase. There has been an unprecedented uptake by the commercial sector resulting in many new products and new product categories, and major increases in market share in some of the well developed categories. For instance, Fairtrade roast and ground coffee now accounts for around 20% of the UK market. The early argument which dismissed Fair Trade on the grounds that it would only ever be a tiny niche seems without foundation in the current climate.

16. Donor support—including that of the Department for International Development (DFID)—has been particularly important in the early stages of Fair Trade, in two key areas:

(i) Support to producers in developing countries

17. The increase in the size of the Fair Trade market has translated into huge volume increases of sales from producer groups in developing countries. More than one million producers sell into the Fair Trade system internationally. Conservative estimates put the number of people benefiting from the fair price, social premiums and advantageous terms of trade which are inherent in the Fair Trade model as in excess of five million. Collaborating with producers—often on a very small scale, with limited experience of selling into the demanding export market—is a long-term and extremely resource-intensive activity. Strengthening the “supply-side” capacity of Fair Trade has been a priority from the beginning and remains so. Donor support for capacity building initiatives with producers has been regular and extremely valuable. However, it has remained project-based and therefore rather ad hoc, responding to the applications which have been made, rather than in a more strategic framework.

18. In this way, DFID has supported a range of projects run by Traidcraft Exchange (the charity arm of Traidcraft), focusing mostly on technical capacity building among producers and the provision of business development services. These have included a sustainable livelihoods project for Indian tea workers which addresses the difficulties arising from the current crisis in the tea industry. Additionally, DFID part-funded Advocates of Philippine Fair Trade Inc. (APFTI), a project which focuses on the delivery of business development services to small and medium enterprises in the craft and food sectors and on advocating Fair Trade in the Philippines. Since it was established in 1997, APFTI has assisted more than 400 businesses with training and business counselling courses, design and product development inputs, market awareness tours and participation in trade fairs.

72 www.cafedirect.co.uk
73 www.shared-interest.co.uk
74 www.fairtrade.org.uk
75 www.ethicaltrade.org
76 All figures from Fairtrade Foundation.
(ii) **Support for awareness raising in consumer markets**

19. The remarkable growth of Fair Trade has, in part, been the result of continuous awareness-raising campaigns by a combination of Fair Trade organisations, faith groups and non-governmental organisations, which saw Fair Trade as a means through which individuals in developed countries could understand and engage with efforts to reduce poverty on a day-to-day basis. Now, of course, there is an increasingly enthusiastic response from consumers, who clearly understand the principles behind Fair Trade and have shown their readiness to support it. The fact that more than half the adult population of the UK recognises the concept of Fair Trade shows that this first phase of awareness-raising is proving to be highly successful.

20. This work has been supported by substantial grants from donors, including DFID. Donors have supported generic awareness campaigns (for example initiatives by the Fairtrade Foundation such as Fairtrade Fortnight or the Fairtrade Towns scheme); they have also funded more specific materials such as education packs for schools focusing on particular products. In its early years Fair Trade was breaking new ground and reaching out to new constituencies—at this stage in its development private companies were not interested in risking an investment in such generic messaging. DFID’s involvement in this is to be applauded.

21. Support for awareness-raising has not been limited to the promotion of Fair Trade itself, of course. Traidcraft PLC does not receive any donor funding, and funds its own marketing and awareness raising activities through its own resources. Traidcraft Exchange, however, has received funding to link Traidcraft’s Fair Trade work with broader trade policy issues—for example support to raise awareness of the impact of ACP-EU Economic Partnership Agreements on small-scale producers. In addition, DFID is currently funding Traidcraft Exchange to raise awareness of international development among purchasers in mainstream companies, recognising the impact that highly competitive UK sourcing can have on vulnerable producers. This has been invaluable in helping to make the link between the impact of buying a Fair Trade product and the wider movement to bring about fairer trade rules and practices for all. More than 25% of Traidcraft’s customers now also campaign with Traidcraft Exchange, indicating that they clearly see this connection.

22. Despite the clear benefits of past donor support, Traidcraft believes that DFID funding has been characterised by a lack of strategic commitment to Fair Trade. Funding has been largely for one-off projects and there has been no overall strategy to cross-refer between individual projects or to facilitate learning in the sector. This lack of strategy for Fair Trade would be less of a problem if there were a broader overarching strategy within the UK government of engaging the private sector. Despite the commitments in previous White Papers (see for instance, Chapter 5 of the 2005 White Paper “Making Governance Work for the Poor”), DFID has yet to realise an action plan for harnessing the private sector for development. This prevents DFID from adequately understanding the role that the private sector is playing in alleviating poverty and has meant that its engagement with business (and by extension, with the Fair Trade movement) has been inconsistent. An assumed shared responsibility on the private sector with the Department for Trade and Industry (DTI) is not sufficiently effective in the area of trade and poverty; DTI’s efforts to link business and development have delivered little of substance.

23. The implications of this lack of strategic vision are twofold:

(i) **The missed opportunity of using Fair Trade as a catalyst for change**

24. The experience of Traidcraft has been that the mainstream private sector is often reluctant to invest in poverty alleviation. However, Fair Trade makes this more conceivable—the rapid increase in the Fair Trade market is a powerful business case for engaging. Fair Trade provides businesses with an opportunity, firstly, of getting involved in development and, secondly, of understanding and perhaps changing some of their own business practices. For example, Traidcraft has recently been working on a Fair Trade initiative with a major UK high street retailer, leading to the development of new Fair Trade products for the UK market. The retailer has gone beyond this collaboration, however, and has sought to develop a broad portfolio of ethical and Fair Trade, including a corporate policy statement on Fair Trade signed by the Chief Executive. Interestingly, the retailer regards this project as a “development project” as well as a “commercial project”. This and other examples reflect a huge change in attitude, with much potential. Yet much still remains to be done, as many companies continue to disregard their social and environmental impacts. More strategic support from DFID and other donors would help Fair Trade organisations increase these kinds of collaborations.

(ii) **The missed opportunity of seeing multiple returns on previous investment**

25. The absence of a vision for Fair Trade means that donors are not capitalising on the results of past investments. There is enormous potential for the introduction of new Fair Trade product lines and for the improvement and expansion of existing ones. For instance, strong mainstream interest has been expressed in the supply of Fair Trade handicrafts. This is unlikely to develop, however, without substantial investment to overcome capacity issues related to producing goods of consistent quality, to the volumes required for

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77 “Attitudes to Ethical Foods in the UK”, MINTEL 2006.
the UK market. While companies are showing themselves increasingly to be prepared to invest in Fair Trade supply chains, the facilitation of new groups—and new products—into the market is a long-term, complex and resource-intensive process, and represents too much of a risk still for many mainstream companies. Typically, it is the Fair Trade brands such as Traidcraft, which take on these risks.

26. Traidcraft therefore calls on HMG to develop a clear strategy on the private sector, with clear performance indicators, and which has as its objective the improvement of the impact that trade has on poverty. Such a strategy would include the following elements:

(i) An analysis of trends in mainstream international trade, with the purpose of assessing the impact of international trade on producers in developing countries. This would ideally be high-profile and seeking substantial stakeholder participation (private sector, producer groups and civil society). Without this baseline understanding, a strategic engagement will not be possible.

(ii) A detailed strategy for donor intervention, with clear targets (in terms of products, sectors or producer groups) for intervention. This will help build a broad understanding within HMG, with business and throughout the development sector of what the problems are and what is possible. It would make sense of what is currently project-based funding. There is no stated link between, for instance, government support to Fair Trade, to the Ethical Trading Initiative (ETI) or to the Extractives Industry Transparency Initiative (EITI). Critically, this would also facilitate shared learning between stakeholders and between initiatives. At present, government plays little part in supporting such learning.

(iii) A commitment to policy coherence. This would not only seek to advocate for development needs across the range of government policy (both domestically and internationally) but would also assess the impact that new UK legislation would have on international development goals. For example, it was not evident that DFID was engaged at all in the recent UK Companies Bill, which was the largest review of company law in recent times. This, again, suggests a lack of vision or commitment to improve the impact of trade on poverty. Many civil society groups, including Traidcraft, were engaged in the company law review process since it began in 1997, and were advocating for the inclusion of requirements for UK companies to report on their social and environmental impacts. Throughout the process attempts were made to engage DFID in the debate, seeking a champion for poverty reduction at a government level, without success.

D. HOW BEST CAN DONORS HELP TO DEVELOP FAIR TRADE CONSUMER MARKETS IN BOTH DEVELOPED AND DEVELOPING COUNTRIES?

27. In developed countries donors should continue to support grassroots engagement and efforts to increase awareness of the Fair Trade concept and of wider trade justice issues. In particular, this would include a focus on enabling consumers to see the benefits that Fair Trade brings to producers. There is also a role for donors in improving public understanding about the full costs of products. This is a debate which is long overdue—UK consumers continue to be encouraged by mainstream retailers (especially supermarkets) that cheapest very often equals best. There are development questions to be raised when products such as jeans retail at as little as £3 per unit and it is right that consumers should have the information they need to ask such questions.

28. In developing countries, donors should foster where possible the creation of in-country Fair Trade initiatives. Not only would this help to engage domestic consumers, but it would also potentially help facilitate regional trade, as opposed to export trade—a key trade policy priority. There is a particular opportunity to mobilise higher-earning groups in rapidly growing middle-income countries. For instance, Traidcraft is involved in an initiative funded by the EU, which is developing an Indian Fair Trade scheme, piloting the Fair Trade concept in a small number of wealthy cities. Similar potential exists in South Africa and Brazil.

E. HOW CAN AID BE MORE EFFECTIVELY MOBILISED TO HELP PRODUCERS IMPROVE THE QUALITY OF THEIR PRODUCE IN ORDER TO ACCESS FAIR TRADE MARKETS?

29. From the producer perspective, there are a number of priorities for Fair Trade if the concept is to evolve and improve its impact, all of which would benefit enormously from donor support:

(i) **Creation of new, credible standards.** There is a great demand from producers and retailers to develop standards for new product categories. Aside from satisfying consumer demand, there are obvious benefits in helping new producers enter the market and existing producers diversify. Experience shows that this process requires substantial investment. Standards developed quickly have rarely been effective in delivering lasting improvements to producers.

(ii) **Facilitating access to new producers.** The number of producers involved in Fair Trade—though growing fast—remains tiny in global terms. As new product standards emerge and volumes in existing products increase, there are real opportunities to work with more producers, including those most marginalised from mainstream trade. This is not without risk, and again investment over a long period is necessary.
(iii) **Strengthening of existing standards and producer bases.** The rapid increase in Fair Trade volumes, together with the launch of other ethical schemes, inevitably puts pressure on existing Fair Trade producers and standards. With the largest players in the market now not dedicated Fair Trade organisations but mainstream commercial businesses, producers need more than ever to be able to guarantee delivery and quality. Some Fair Trade producers have already successfully exploited high-value niches, especially in quality tea, coffee and cocoa. Others, especially small-scale producer groups, have to compete with the economies of scale of plantation production. Support to producers to make the most of these opportunities, and understand the challenges posed by volumes and quality standards, is critical.

30. There are several priority areas for donor involvement:

(i) Regional and local producer support networks must be strengthened, as they hold the key to the future success of Fair Trade. Even with the low level of funding currently available, these networks perform a range of essential functions, including market information, business linkages, organisational development, standards compliance, support on product strategy, financial services and many others necessary to strengthen businesses and to empower producers. In Traidcraft’s own monitoring activities, this sort of capacity building is repeatedly cited by producers as being of most value.

(ii) More provision should be made for participatory impact assessment, which would involve producers at every stage. There is a growing body of impact analysis in the Fair Trade sector, and with its popularity among academics and consultants there is a justifiable concern among some producers that they are being audited out of existence. Even so, the diversity of Fair Trade means that a proven model in one product area may not be as effective in another, where the supply chain may be organised quite differently, and so robust analysis will continue to be needed. This should be respectful of producers needs and interests, however, and seek to improve understanding of what works, rather than merely audit performance. For instance, Traidcraft is currently supporting an impact study of its work in Bangladesh which is analysing the ways in which both the social and economic benefits of Fair Trade are affecting the lives and opportunities for the producers.

(iii) Donors could facilitate the exchange of experience to create new partnerships between Fair Trade organisations and the mainstream private sector. Traidcraft has recently been involved in one such project, which was a collaboration with the Shanto Maryam University of Creative Technology in Bangladesh to provide valuable product development training and mentoring to local businesses. The courses were extremely successful and taught producers about meeting the product specifications, quality, packaging, deadline and pricing requirements for exportable products.

(iv) Finally, outside traditional funding, there should also be more scrutiny of the fast increasing industry around standards and codes of conduct, to ensure that they do not become additional barriers to market entry for poor producers. The extent to which producers themselves are involved in setting standards, monitoring and reviewing their implementation is central here.

F. **How does the International Trade System Impact on Ethical and Fair Trade Production (for example, the impact of Changes in the EU Tariff Regime for Bananas on Small Developing Country Producers)?**

31. EU trade policy generally works against the interests of poor producers in developing countries, as it is designed to protect either the interests of European manufacturers or of powerful interest groups such as large-scale EU farmers. Support to Fair Trade, whilst invaluable in providing direct impact to millions of people, is necessarily only part of the picture. More generally, a truly enabling environment is required in which poor producer groups are supported in accessing markets on a sustainable basis. The current trade system very often disables producers, as the following examples from within the EU demonstrate:

— The EU maintains a complex system of escalating quotas and tariffs which effectively frustrate efforts by developing country producers to access European markets, or to add value in-country (eg instant coffee, chocolate).

— Seemingly innocuous EU soft regulation also has potentially huge impacts on poor producers. An example is in honey, which is a valuable income generator to many of the poorest farmers, particularly in Africa and which is additionally an important Fair Trade product. Recent amendments to EU Sanitary and Phytosanitary regulation required changes to the certification process which made it impossible, at a stroke, for African honey to enter the EU. Producers actually had consignments of honey returned, which caused significant problems. A simple process of dialogue before the EU implemented such measures would have saved much time and money.
32. Elsewhere, the European Union’s trade policy remains disconnected from the real circumstances of poor producers in developing countries. A fully participatory process of impact assessment is absolutely essential before new policy initiatives are developed. To date, attempts at impact assessment in this area have been particularly poor, with no engagement at all from the most vulnerable groups in international supply chains. In particular:

— The recent changes to the EU’s market access regime, notably revision of preferences in sugar and bananas, were developed substantially as a top-down process, whereby the European Commission announced the changes and spent some time thereafter assuring ACP countries (most affected) that they would be supported through the adjustment process. Whilst this might be an easier strategy for the EC, in terms of harmonising its trade policy, it does not help poor countries plan alternative strategies, diversify out of sectors which might be rendered less competitive as a result, or secure sufficient financing for the time needed to cover the adjustments.

— The current negotiations between the EU and ACP countries for Economic Partnership Agreements (EPAs) further highlight the vulnerability of poor producers to changes in trade policy. Most Fair Trade products derive from ACP countries, and it is a matter of real concern to the international Fair Trade movement that EPAs are being negotiated in such an aggressive manner by the European Commission, despite the concerns which have been raised time and again by ACP governments. The EC is pushing for “substantial” liberalisation of ACP markets to a very fast and arbitrary timetable, which even now is being talked of as being as little as 12 years. While this may work for some aspects of some ACP economies, there are vast differences between the ACP members and huge complexities to overcome, even before liberalisation within ACP regions (as opposed to with the EU) can take place. The EC is still insisting on a one-size fits all approach, which is likely to be hugely damaging. The fact that it is now expecting SADC countries to join with South Africa in a free market with the EU demonstrates again that EC trade policy is strong on theory and absolutely weak on pragmatic understanding of what is taking place on the ground. The gains made by Fair Trade, whereby poor producers have been able to sustain access to international markets, risks being seriously undermined by this approach.

33. It is not the unlimited liberalisation of trade, but the quality of trade that will make a difference to poor producers. If the EU is serious about its commitment to develop sustainable trade that benefits everyone in the supply chain, this should be made the basis of its policies. The UK government must step up its scrutiny of EU trade policy, and advocate more effectively for pro-poor trade policy at a European level. Its track record on this is weak.

G. IN AN INCREASINGLY CROWDED ETHICAL MARKETPLACE HOW CAN CONSUMERS BE SUPPORTED TO DISTINGUISH BETWEEN DIFFERENT FAIR TRADE BRANDS, LABELS AND CODES?

34. The proliferation of ethical schemes and fair labels across the market is a significant challenge. It has clearly created confusion in the minds of consumers and more public information is needed so that companies making false claims can be exposed. Fair Trade organisations are responding to the challenge by seeking to improve the transparency and accountability of their own standards.

35. In the same way, the government should be incentivising corporate practice that goes beyond the minimum, and not rewarding companies for doing no harm. This should particularly be taken into account when it comes to funding. For instance, DFID is providing around 40% of the running costs of the Ethical Trading Initiative, an alliance of companies, trade unions and non-governmental organisations working together to promote the implementation of minimum labour standards. In 2006, a five-year Partnership Programme Agreement (PPA) was agreed between ETI and DFID, which will provide ETI with guaranteed strategic funding of £875,000 for the first two years.

36. Although the work that the ETI is doing is valuable—Traidcraft is a founder member—its funding by DFID raises two concerns. Firstly, the primary beneficiaries are arguably the companies themselves, as the ETI enables them to manage risk in their supply chain, and they should not need this kind of subsidy for their social responsibility work. Secondly, the results of the impact assessment of the first 10 years of the ETI identified many shortcomings and limited impacts on poor people in developing countries, which are DFID’s main constituency. Given the large amount of funding provided by DFID and the valuable information that the member companies receive about their supply chain (information which ultimately enables them further to consolidate their power base) there is a strong case for government to be, at the very least, more demanding with regard to the impacts of the ETI and to holding them more to account.

37. In contrast to the ETI, DFID has told the Fairtrade Foundation, which seeks to go beyond minimum labour standards, that it expects it to be self-sufficient in future. This is most unlikely and even undesirable, as to be dependent solely on its licensees could undermine the Fairtrade Foundation’s independence. More importantly, it highlights the uneven nature of DFID’s commitment to the sector.

Commissioner Peter Mandelson in evidence to the IDC, January 2007.
H. WHAT IS THE ROLE OF SUPERMARKETS, RETAILERS AND BUSINESSES IN SUPPORTING ETHICAL AND FAIR TRADE PRODUCTION?

38. The entrance of supermarkets and retailers into Fair Trade has been very useful in delivering significant volumes and has been responsible for the mainstreaming of major Fair Trade products in the UK market in recent years. Supermarket sales started to take off in the late 1990s with the sale of single Fair Trade branded products and now include a wide range of own-label Fair Trade products. Whole category switches are beginning to take place: a development led by the Co-op, followed by Marks and Spencer, Trade branded products and now include a wide range of own-label Fair Trade products. Whole category switches are beginning to take place: a development led by the Co-op, followed by Marks and Spencer, Sainsbury’s and Waitrose.

39. These moves are commendable and make a significant difference to the livelihoods of many people in developing countries, as they show a commitment to incorporating Fair Trade principles into current business practices, which go beyond mere tokenism. Those multinationals that have made a substantial commitment to Fair Trade should be seen as a challenge to the activities of many other powerful retailers and brands, who continue to disregard those at the bottom of global supply chains. In many sectors market concentration is increasing the vulnerability of poor producers, with more and more suppliers seeking to sell to fewer corporate buying desks.

40. Supermarket commitment in relation to Fair Trade is varied, however. For example, a supermarket does not need to be a licensee of the Fairtrade Foundation—and therefore bound by its standards—if its packaging and labelling is outsourced. In these circumstances, they need make no explicit commitment to a stable purchasing arrangement, they could switch between registered producers at will or could abandon the trading relationship in the event of a market decline at short notice. There is also the risk that supermarkets and brand manufacturers will engage in a race to the bottom to buy the cheapest Fair Trade products.

41. Ironically, Fair Trade began as a challenge to the dominance of global brands and retailers, including supermarkets. That many of these companies are now involved in selling Fair Trade is a matter of concern to some. It is too early to know whether the Fair Trade model will influence corporate practice beyond individual Fair Trade supply chains. Certainly, recent announcements by some major retailers suggest that they are taking this very seriously.

42. What is needed from supermarkets and retailers is not only a greater commitment in terms of bigger volumes, range of products or more equitable terms of trade, but also profound changes in the way they conduct their wider business. In addition to voluntary initiatives such as Fair Trade, there is a need for more robust regulation to correct the imbalance of power between multinational retailers and their suppliers, which would set out companies’ responsibilities for their social and environmental impacts and offer workers, farmers or suppliers harmed by a UK registered company the opportunity to seek redress.

February 2007

Memorandum submitted by ActionAid

INTRODUCTION

1. ActionAid UK is part of ActionAid International. ActionAid was founded as a British charity in 1972 with a mission to eradicate global poverty. It had 88 supporters. Over the last three decades we have expanded to more than 300,000 supporters in Europe and offices in more than 40 countries. In 2003 we became ActionAid International and moved our global headquarters from the UK to South Africa. Today 90% of our 1,800 staff are from developing countries, our chief executive is Nepalese and our international directors come from Brazil, India, Kenya, Italy, the US and UK.

2. ActionAid UK welcomes this opportunity to submit evidence to the IDC enquiry on Fair Trade and Development. We recognise the part that fair trade can play in improving the lives of workers and farmers in developing countries. Many thousands of people have benefited from fair trade schemes. However, although fair trade is a rapidly growing market, it is still a tiny part of the whole, with sales of fair trade products accounting for less than one tenth of 1% of retail sales of food and drinks in the UK. Through our research, campaigning and advocacy work in the UK and in developing countries we are acutely aware of the inequalities that too often characterise trading relationships between North and South.

3. Fair trade offers a model of how buyers in the North can deal fairly with suppliers in the South, while still allowing businesses to make a profit and consumers to be offered goods at affordable prices. The growth of the fair trade market over the last few years indicates that UK consumers are keen to purchase goods that have been produced without exploitation. According to a recent poll, 65% of UK shoppers bought a fair

81 Ibid.
82 Figures from Fair Trade Foundation and Office of National Statistics.
trade product in 2006. However, ActionAid is concerned that producers and workers—the majority of them often women—in developing countries supplying the mainstream UK market continue to endure widespread violations of their basic rights. This submission considers the actions of various key actors in the supply chain, and how they might all be encouraged to deal more fairly with suppliers in developing countries.

What is the role of supermarkets, retailers and businesses in supporting ethical and fair trade production?

4. UK supermarkets sell many billions of pounds worth of goods sourced in developing countries, including fresh fruit and vegetables, clothing, cut flowers, wine, tea, coffee, cocoa, meat, poultry, nuts, toys, electronic equipment and homeware products such as rugs and cushions. These products contribute an important part of export earnings for a number of developing countries. Tesco alone buys 3% of Sri Lanka’s entire clothing exports.85 Overall, developing countries earn nearly £3 billion a year from exporting goods that are sold through UK supermarkets, or around £8 million million every day.86

5. While accurate figures are not readily available, the number of people in developing countries that work on farms, in factories and as homeworkers producing for UK supermarkets is likely to run into tens of millions. In the fresh fruit and vegetable sector alone, the livelihoods of over three million people in developing countries depend directly on producing for UK supermarkets.

6. The potential to improve people’s lives through improving the terms of supermarkets’ trade with Southern producers and securing worker’s basic rights is enormous. Unfortunately, there is growing evidence that current approaches, based on encouraging voluntary action by supermarkets, are not having the desired effect.

7. A recent assessment of the impact of nine years of efforts to improve labour standards through the Ethical Trading Initiative shows some of the difficulties of relying on voluntary efforts to improve standards on the part of supermarkets.85 They found that the efforts of supermarkets involved in the ETI had had limited effects on the ground. A key problem is that, while one part of the company may be involved in genuine attempts to improve standards, too often buying practices are not following suit. Routine buying practices, such as insisting on lower prices, shorter lead times, sudden, unilateral and retrospective changes to orders, delaying payments, not writing terms of business and forcing suppliers to meet the costs of ever more stringent quality standards, can and do undermine attempts to improve ethical standards in supply chains.

8. Evidence for this was provided by the latest information released from the current competition commission enquiry into supermarkets. Following the 2000 Competition Commission inquiry, a voluntary code was drawn up to encourage supermarkets to improve their buying practices. In 2003, the Office of Fair Trading review of the impact of the Supermarkets Code on UK suppliers found, “widespread belief amongst suppliers that the Code is not working effectively,” with most respondents stating that, “the Code has failed to bring about any changes in the supermarkets’ behaviour.”

9. The suppliers’ views were borne out by the evidence from a survey of suppliers published in the “Emerging Thinking” of the most recent Competition Commission enquiry into supermarkets, in January 2007. Over a third of suppliers reported that their customers—among them the big four supermarkets—were requesting price reductions just before or after delivery, nearly a half reported delays in payment, and just under two-thirds reported that buyers were insisting on them making contributions to marketing costs.

10. None of these practices are specifically outlawed by the Supermarkets Code, but all carry a health warning, in that they should only be done “reasonably” and with genuine agreement from the supplier concerned. Given that the survey also found that over half of suppliers felt that they had little, if any, bargaining power over supermarkets, and that suppliers’ gross margins had declined by 67% over the last five years, there is certainly reason to suspect that the supermarkets are not abiding by the spirit of the Code.

11. Suppliers who source overseas share the same experiences. The costs and risks of these buying practices are passed down the supply chain to the most vulnerable link—the workers and farmers in developing countries who produce the goods. As one South African fruit supplier to Tesco put it “the only ham in the sandwich is our labour costs. If they squeeze us, it’s the workers who get squeezed”.86

12. Actions taken by supermarkets to woo consumers can also have a direct effect on suppliers, in the UK and elsewhere, as suppliers testify:

Significant promotions on price, such as buy one get one free offers on bagged apples, crucifies producers, as you get half the price but you get double the costs.87 Wal-Mart pressures the factory to cut its price and the factory responds with longer hours or lower pay, and the workers have no options.88

83 ActionAid calculation from figures in: Corporate Watch, Tesco and the Garment Industry in Asia, 2005.
84 ActionAid calculation from figures provided by HM Customs and Excise.
87 ibid
13. ActionAid’s research bears out this trend. In Central America, banana workers are bearing the brunt of supermarket’s attempts to cut prices. Gilberth Bermudez, the General Secretary of the banana workers’ union, SITRAP, told ActionAid:

The companies frequently argue that they can’t pay even basic wages, because the supermarkets in Europe or Great Britain or the US don’t pay adequate prices for the fruit. This is an argument they put forward. We, in the unions, don’t have sufficient information to know whether or not this is true. It’s very difficult to challenge or correct this argument, because the supermarkets don’t publish the necessary information.89

14. In South Africa, farmers also find themselves forced to lower costs to meet supermarkets’ changing demands. Speaking on condition of anonymity, one farm owner told us:

A buyer for Tesco picks up the phone as says x is offering me apples for £1 a carton cheaper; meet him or I take you out of the programme. Supermarkets like Tesco have all the power in the world and we have to cut costs as far as we can. We’re really at their mercy.90

15. ActionAid saw at first hand what “cutting costs as far as we can” means in practice in the South African and Central American fruit industry: workers paid below the minimum wage, increasing casualisation of the workforce, and poor health and safety standards. We know that the same is true of workers in other industries that fulfill the ever expanding needs of supermarkets for ever cheaper and more varied products. We are concerned that millions of people around the world are caught in the crossfire of supermarket price wars. These people need more protection than is provided by voluntary codes.

How can trade unions help to ensure that the drive for cheaper produce does not undermine social and environmental standards in developing countries?

16. Regulating the relationship between all supermarkets and their suppliers would remove many of the buying pressures imposed on suppliers and help strengthen the bargaining power of workers and their representative organizations to negotiate for better pay and conditions. However, they would not necessarily benefit automatically from changes in supermarket buying practices. The promotion of trade unions and worker’s rights—such as freedom of association and the right to collective bargaining—in developing countries will have a key role to play in ensuring that improved buying practices are translated into better working and living.

17. ActionAid’s research shows that women workers are often particularly vulnerable to exploitation, and are often not unionized. Casual workers, many of them women, are often the most unable to demand better working conditions and are the least likely to be union members. It is essential that trade unions in the UK and overseas make particular efforts to engage women and casual workers in articulating their problems and defending their rights.

How does the international trade system impact on ethical and fair trade production (for example, the impact of changes in the EU tariff regime for bananas on small developing country producers)?

18. While a number of companies have made serious efforts to make their business practices more ethical, trends in international trade tend to make this more difficult. First, increased concentration in the downstream stages of almost every sector—from food retail to mining, finance to electronics—has reduced the opportunities for smaller suppliers to negotiate with buyers and get better terms.

19. Second, a marked increase in the number of workers involved in production for international markets has reduced the power of individual workers and their organizations, and led to a corresponding increase in the share of wealth going to companies compared with workers.

20. Five hundred million people producing for export markets, mainly in China were added to the global workforce between 1980 and 2000, without very much increase in the total amount of capital available.91 The resulting reduction in the power of the workforce has been used by companies to increase their own profits and reduce prices to consumers. The amount of GDP that goes directly to shareholders is at its highest in America for 75 years, and in the Euro area and Japan is at its highest for 25 years.92 The price of clothes in the British high street has fallen by 40% over the last 10 years. At the same time, the number of workers living on less than US$2 a day has continued to increase and, according to the ILO, now stands at 1.37 billion people worldwide.

21. The fair trade model shows that trade can work for poor people. But global market forces are heading in a direction that may well tend to reduce incentives for more ethical behavior on the part of businesses. In this situation, the onus is even more on governments to rein in the worst excesses that markets may cause, and create a globalization that benefits poor people. Regulating the relationship between buyers in

89 Interview to be published in forthcoming report.
90 ActionAid, 2005, Rotten Fruit: Tesco profits as women workers pay a high price.
developed countries and suppliers in developing countries, and supporting groups in developing countries attempting to protect rights and improve conditions for workers and farmers, is a crucial step in helping to end poverty.

22. As well as considering the implications of the experience of fair trade projects for the further development of the fair trade sector itself, ActionAid urges the IDC to consider the wider lessons of fair trade, and in particular how it can point a way towards better relationships between producers in developing countries and consumers in the UK and beyond.

RECOMMENDATIONS

— The Supermarkets Code of Practice to be made statutory.
— The introduction of an independent supermarkets regulator, with the powers to pro-actively monitor the market and root out abuses, and a confidential complaints mechanism for suppliers to report breaches of the Code and other misconduct.
— The Code’s reach to be extended beyond the supermarkets’ direct suppliers in order to ensure secondary suppliers and primary producers based overseas have an avenue of redress.
— The Code to be extended to cover all supermarket suppliers, including suppliers of non-grocery products such as garments, flowers and toys.
— Supermarkets to make public their entire supply base, to allow independent monitoring of conditions.

February 2007

Email to Ann McKechin MP submitted by ActionAid

I hope you are well. I wanted to drop you a note in response to Tuesday’s IDC Fairtrade and Development hearing, at which Tesco appeared. A report from De Havilland on the session said that Tesco disputed ActionAid’s 2005 research on women fruit pickers in South Africa who work in supply chains to Tesco.93

“On a separate set of allegations made by ActionAid relating to treatment of women cultivating fruit in South Africa, Ms Reynolds insisted again that Tesco had not been shown any evidence to support the claims that had suggested that women were been paid poorly or had been exposed to dangerous chemicals in pesticides. Tesco had set up a forum involving representatives of the South African Government, farmers, Women on Farms and other stakeholder, Ms Reynolds informed the committee. Asked if Women on Farms was a Union by Joan Ruddock, Ms Reynolds stated that she thought it was, but would confirm this to the Committee in writing. Closing the Committee, Chair Malcolm Bruce asked how possible it was to actually, accurately source all products and the relevant supply chains.”

We undertook the interviews in South Africa with 21 workers on 7 farms accredited to supply Tesco on the basis that their names and the farms they work on would be confidential, in order to guarantee the safety and livelihood of those involved. On publication of the report, Tesco refuted the claims we made, including that the workers were exposed to pesticides. We stand by the accuracy of our research. We conducted the research alongside colleagues from ActionAid South Africa and our partner organisation Women on Farms Project and the local trade union Sikhula Sonke (We Grow Together), who we have worked with for a number of years.

In July 2006, we helped to bring one of the women farm workers to speak at Tesco’s AGM in London to ask the Tesco board directly why they were refusing to admit to the problems of low pay, bad housing and exposure to pesticides. They promised to look into the problems and agreed to a new auditing system which is due to be implemented on the farms in the area.94

We stand by the accuracy of our research. We conducted the research alongside colleagues from ActionAid South Africa and our partner organisation Women on Farms Project and the local trade union Sikhula Sonke (We Grow Together), who we have worked with for a number of years. We will continue to work with our partners to ensure Tesco sticks to its commitments and we see real improvements to the working conditions of the women workers.

We will continue to work with our partners to ensure Tesco sticks to its commitments and we see real improvements to the working conditions of the women workers. We have met Tesco on 2 occasions and have repeatedly explained that we cannot supply them our documentary evidence and the names of our interviewees for fear of breaching their confidentiality.

93 http://www.actionaid.org.uk/content/documents/tesco_southafrica.pdf
For ActionAid, the situation shows that supermarkets such as Tesco are using their massive buying power to exploit workers overseas by putting pressure on their suppliers to produce goods cheaper and more flexibly, with extra costs and standards imposed. A solution to the problem is needed at Government level, as a voluntary approach to corporate social responsibility is not bringing about the changes we need to see to corporate behaviour across the board.

We are absolutely not calling for a boycott of Tesco or any other supermarket. Our demand is for the UK Government to introduce tougher rules to protect the rights of workers and producers where UK companies operate overseas. We have made a submission to the current Competition Commission inquiry into the groceries market outlining our concerns. Our recommendation is for the UK Government and the Competition Commission to establish an independent regulator to enforce new standards that ensure fair and effective competition between supermarkets and suppliers, including overseas suppliers. It should have the power to investigate complaints and to impose sanctions on supermarkets that violate its standards.

ActionAid is happy to provide any more detail to committee members and discuss the issues further.

March 2007

Memorandum submitted by Banana Link

**An Introduction to Banana Link, EUROBAN and Fair Trade**

Since before Banana Link was founded in January 1996, the organisation’s current International Coordinator has been closely involved with the development of the Fairtrade labelling initiative for small-scale banana producers. In February 1994, he convened the first pan-European meeting in Brussels of organisations which went on, later that year, to form the European Banana Action Network (EUROBAN). One of the two key premises of EUROBAN since its inception was to explore the potential for a “pan-European fair trade banana initiative”. In those days, there were three alternative trading organisations in Switzerland, Germany and Belgium importing under fair trade terms and distributing several thousand tonnes of Nicaraguan bananas to their world shop networks. The founding members included other European development NGOs. The Network has been meeting three or four times a year since then.

Within the framework of EUROBAN, Banana Link has:

- Ensured the systematic participation of small farmers’ organisations from the Caribbean and Latin America as well as independent plantation workers’ union from Latin America in the initial phase of development of fair trade banana standards (1995–97), prior to the formation of the Fairtrade Labelling Organisations International. This included organising tours of the UK and the rest of Europe for COLSIBA and WINFA representatives to promote the need for fair trade before it became a reality (in the Netherlands in November 1996, then Switzerland the following year). In the UK, it was The Co-op and Sainsbury which launched Fairtrade labelled bananas in quick succession in January 2000.

- Insisted on the importance of minimum environmental, health and safety standards as an integral part of these standards, inseparable from social or labour standards. These standards in bananas went on to be integrated by FLO into all their generic product standards.

- Provided two members of the FLO Banana Register Committee (from 1998 to 2001), the body responsible (until restructuring of FLO in 2002) for taking certification decisions, providing producer support and supplying accurate information to FT labelling initiatives in the growing number of countries where FLO-certified bananas were labelled.

- Organised two South-South meetings in 1999 (Dominican Republic) and 2000 (St Vincent & The Grenadines) for small farmers’ organisations from Latin America and the Caribbean which were either already certified or interested in becoming so.

- Facilitated, since 2001 to the present day, the continuing and increasingly regular involvement of both Latin American trade unions (through their coordinating body COLSIBA) and small farmers’ organisations in discussions with FLO.

- Kept as high as possible on FLO’s agenda, together with IUF and our union partners in Latin America and the UK, the issue of ensuring credible monitoring and verification of labour standards in “hired labour” situations, ie plantations.

- Involved ourselves in regular debates about the certification of large plantation companies, especially multinational fruit companies with a long history of bad social, environmental and trading practices.

In the UK context specifically, Banana Link has:

- In common with a multitude of other local development education and community organisations around the UK, promoted the concept and practice of fair trade since before the creation of the Fairtrade Foundation in 1994.
— Explored the potential for adapting the continental alternative trading models to the UK situation (although they proved to be impractical in the UK context).

— Always held the view that Fairtrade labelling should not be seen as exclusive to the large multiple retailers, but should be equally accessible for smaller and independent retailers.

— Undertaken proactive educational and awareness-raising work since we were founded, both in East Anglia but also nationally, within and beyond the formal education system, in the media, in all our promotional material and in numerous meetings of the trade union movement at all levels, proposing fair trade purchasing as a practical alternative to citizen-consumers.

— Worked with retailers—both national multiples and independents around the country—to promote fair trade bananas sourcing and publicity, starting with The Co-operative Group which was the first retailer to launch in the UK, then later with Sainsbury, Safeway, Tesco, Marks & Spencer and Asda.

— Worked, since 2003, with Britain’s main retail workers’ union, Usdaw, to put fair trade on their agenda.

— Been working, since 2001, with the local consortium of citizens, church and farmers’ groups—Fair Trade in Norfolk—to promote sourcing and consumption in the county where our organisation is based.

What is the role of supermarkets, retailers and businesses in supporting ethical and fair trade production?

1. Supermarkets, retailers and businesses have been considered as simply reacting to the demands of consumers when it comes to supporting ethical and fair trade production. Without this market incentive, retailers do not have the internal or financial drive to take action and improve standards of production in supplier countries. This role, however, steadily changing as pressure from consumers, NGOs, labour organisations, governments and producers press the big retailers to “clean up their act” and take responsibility for conditions along their supply chains. The very fact that retailers have the power to make this happen makes the importance of their role within this process unquestionable. For retailers to ignore this role and continue to abuse their power along international supply chains will become increasingly difficult as awareness of the impact of their actions increases on a global level.

2. In the case of supermarkets, their abuse of power has directly resulted in forcing down social and environmental conditions in a “race to the bottom” for ever cheaper produce. By recognising this fact and the impact of their actions supermarkets can begin to reanalyse their position along the supply chain and make positive changes by supporting ethical and fair trade production. This process has recently been evident from the Sainsbury move to convert 100% of their banana supply to Fairtrade by July 2007. The decision cannot simply be interpreted as the result of consumer pressure, rather as the recognition that sustainable social and environmental conditions in producer countries do not necessarily equate to decreases in profits and market share.

3. The prospect of all major retailers converting all their produce to ethical and fair trade is far from likely at present, but small steps can be made that contribute to large positive impacts in supplier countries. It is important that retailers not only give the choice of fair trade and ethical products on their shelves but also contribute towards raising awareness and educating on the benefits of purchasing these products, such as is the case with the The Co-operative Group. This may not occur currently due to fear of highlighting the unethical conditions under which their non-ethically compliant products are produced. This is why retailers must improve standards on all products, rather than just increasing the share of ethically compliant products on their shelves.

4. To this end, stricter and more participatory auditing procedures carried out by retailers, in conjunction with local workers’ representatives, could greatly improve social and environmental standards of production. Such an increase in participatory auditing and standard verification could also be applied to ethical trading standards compliance to ensure a true positive impact ensues from any commitments made to purchase produce that has been deemed to meet ethical trading standards or has acquired Fairtrade certification.

5. A more active involvement of retailers and businesses in an integrated supply chain initiative, bringing together ideas from all actors on how to make effective progress in improvements on trade and productions standards, could also provide a sustainable mechanism for support of fair trade and ethical production.

How can trade unions help to ensure that the drive for cheaper produce does not undermine social and environmental standards in developing countries?

6. There are a number of ways that trade unions in developing countries can limit the degradation of social and environmental standards. The combined activities of worker organisation to help re-address the unequal balance of power between workers and their employers (especially when considering the power held
by multinational companies), education and training to give workers the knowledge and capacity to fully exercise their rights, and legal support to enable workers to take action when faced with unacceptable working conditions can—when taken together—help prevent employers from decreasing social standards to exploitative and unsustainable levels. Similar activities can be undertaken with the objective of preventing the degradation of the natural environment, using educational processes and independent organisation to empower workers, their families and communities to take action to challenge the negative environmental impacts of production.

7. If trade unions in developing countries have the capacity to engage on an international level, through alliances with other trade unions, NGOs or labour organisations, they can use their awareness of the realities of production to play a key role in putting pressure on the various actors along supply chains that contribute towards exploitation of workers and the environment. This could involve campaigning or negotiations with production and trading companies, retailers and organisations responsible for the implementation of international standards of production (such as the ILO, WTO and the various private social and environmental certification bodies).

8. Internationally, trade unions in developing countries can play a key role in raising awareness on the realities faced as a result of low prices paid for national produce, stimulating action by various actors in importing countries to halt the drive for cheaper produce and promote improvements in social and environmental standards.

9. Trade unions within consumer countries can also play an important role in preventing the degradation of labour standards in producer countries. Trade union members have power as consumers, trade unionists and workers actively involved in international supply chains (for example, British retail workers are unpacking and putting the bananas out on shop shelves that have been produced by workers at the beginning of the supply chain in developing countries). It is therefore important for these trade union members to be made aware of conditions in producer countries to enable them to use their power to act in solidarity with workers on an international level. This action may involve: direct support—financial, legal, moral—to the trade unions in developing countries; putting pressure on their local retailers, employers and sub-contractors, labour organisations and government to ensure basic standards are met in producer countries; carrying out education and awareness raising work amongst their members and the general public to highlight the impacts of pushing down prices; being actively involved in campaigns targeting retailers and multinationals responsible for driving down prices and subsequent social and environmental standards in developing countries.

10. The role of trade unions is therefore fundamental to the maintenance of social and environmental standards in the face of the drive for cheaper produce, however, it must also be understood that trade unions are not able to face this struggle alone. Support is needed from all actors throughout international supply chains if a sustainable solution to the continual degradation of social and environmental standards in developing countries is to be found.

How does the international trade system impact on ethical and fair trade production (for example the impact of changes in the EU tariff regime for bananas on small developing country producers)?

11. Liberalisation of the current international trading system is, by and large, having a detrimental impact on ethical and fair trade producers and trade. An example of this is provided by the decision by the EU to move to a “tariff only” import regime for “third country” bananas in January 2006. This move has threatened banana production in some of the African, Caribbean and Pacific (ACP) states whose industries were previously protected to some degree from free market forces by preferential trading arrangements.

12. This liberalisation has particularly affected banana producers in the Caribbean region, especially the Windward Islands and Jamaica,\textsuperscript{96} where production is characterised by small, often family-owned farms. This pattern of production has come about as a result of successful land reforms and means that banana production has historically driven poverty reduction and rural development since the end of the plantation system in the 1970s. A clue as to the vulnerability of small-scale Caribbean banana producers in an increasingly liberalised EU market became apparent in 1999 when country-specific quotas were abolished, allowing West African producers in the Ivory Coast and Cameroon to take a larger market share of the overall ACP quota. In the last 12 years, the number of banana farmers on the island of St Lucia has declined from 10,000 to 2,000. Whilst it could be argued that this shift in trade benefited producers in the West African states, as production is on large-scale, multi-national owned plantations which aim to rival the Latin American plantations, this increase in export revenue has done little to improve the lot of the workers on these plantations.

\textsuperscript{96}Jamaica’s exports are mainly based on two large plantations, but where labour conditions and wages are much higher than in most comparable plantations in Latin America or West Africa. However, there are still a hundred or so small-scale family farms involved in the export trade.
13. It seems that to survive in a liberalised EU banana regime, countries engaged in banana production have to lower wages and labour standards. Small-scale producers in islands such as the Windwards should not be penalised for maintaining higher labour standards, despite the pressure from successive WTO rulings—and, more recently, from the EU—to grow ever cheaper bananas to stay in the game. ‘To remain viable and maintain standards in production, WINFA (the Windward Islands Farmers’ Association) has encouraged farmers to gain Fairtrade certification to take advantage of this new market in Europe (exclusively in the UK at present).

14. In the Windwards case, maybe it could be argued that liberalisation of the EU market is encouraging the development of Fairtrade certification and labelling. However, the reality is that it requires a well organised small farmer sector, led by a visionary organisation like WINFA, to foresee, pioneer and plan for the negative impacts of trade liberalisation. This is not always a “given” in many developing countries. Nor are the necessary resources always available. What Windward Island farmers have done is in spite of—rather than thanks to—EU import regime liberalisation. The fact is that the farmers’ livelihoods, whether with Fairtrade certification or not, remain totally dependent on the “goodwill” of British retailers and consumers.

15. The power exercised by big UK retailers over whole island economies—should they choose to ignore consumer preference and reduce or stop purchasing in these islands—is a matter of considerable worry until such time as long-term written and public commitments can be made by the retailers. The Windwards experience is salutary, because the development of Fairtrade labelling is in response to the need to find survival strategies for the livelihoods of whole rural (and by extension urban) economies, and most certainly not because the principles of fair trade (in the generic sense) have been integrated into the rules and everyday functioning of the world trade system.

16. In Latin America, the move to a liberalised tariff-only regime by the EU is not viewed in a positive light either. Many Latin American workers’ unions have argued that by ending the quota system which regulated the amount of bananas that were allowed into the EU, a race to the bottom in the banana industry has been accelerated as companies push down the prices paid to producers (large and small) in order to remain competitive, in so doing reducing labour standards, wages and investment in environmental improvements. In “higher cost” exporting countries like Panama and Colombia, for example, banana producers have been forced out of business in 2006 or seriously risk losing their markets in 2007 as a direct result of EU import liberalisation. Meanwhile, in the North West of Nicaragua, the end of the EU banana import licence system has led directly—and virtually overnight—to the dramatic impoverishment of some 30,000 of the poorest people in the whole of the Americas.

17. Liberalisation of international trade, as exemplified by the liberalisation of the EU banana regime, is not encouraging fair and ethical production and trade on the world market, even if some traders registered in the FLO system may have been able to benefit from the end of the licence system. Efforts to instil some of the values and standards of Fair Trade, for example from the international umbrella bodies FLO and IFAT, are being undermined by an international trade system which holds free market access and open competition without minimum social and environmental standards in higher esteem than sustainable development, poverty reduction and ethical production in developing countries.

In an increasingly crowded ethical marketplace, how can consumers be supported to distinguish between different fair trade brands, labels and codes?

18. The key to supporting consumers in their desire to shop ethically is information and education on how to use that information to make choices when faced by a multitude of different brands and labels. The boom in the fair trade sector, encouraged by campaigns by NGOs such as the Fairtrade Foundation’s “Fairtrade Fortnight” and recent highly publicised moves by retailers such as The Co-op, J Sainsbury, Waitrose and Marks & Spencer to use fair trade as a marketing tool must be accompanied by an increased awareness and understanding of what it means to buy fair trade and ethical products and why there is a need to make this choice as a consumer.

19. There is a responsibility for the Fairtrade Foundation, as the UK’s most visible fair trade NGO, to ensure that the information they provide to the public about the fair trade system is clear and, very importantly, transparent. Other labelling organisations and NGOs that promote ethical and fair trade must also support and actively promote information on why consumers should be prepared to pay more for their produce. Retailers that choose to stock fair trade products must also play a role in raising awareness and empowering consumers to make ethical product choices, for example by displaying information about where consumers can find answers to their questions about the fair trade system (ie Fairtrade Foundation or Traidcraft posters with clear contact details displayed.)

20. It is perhaps easy for those people who work in organisations which promote fair trade to forget that to the average consumer/member of the public the Fairtrade mark is a logo which they recognise, but perhaps do not completely understand. Therefore information available on the complexities of the subject
needs to be sensitively disseminated, in formats that are suitable for the wider audience. This means using resources and information sources which are appropriate for a diversity of target groups, for example school children, university students, trade unions, community organisations and the general public.

21. The increase in consumers’ desire to buy fair trade products has come about largely due to active awareness-raising activities and information dissemination by NGOs. It is important for these organisations to ensure the momentum is not lost through confusion over brand names and potential lack of confidence in the system by decisions such as the one to certify a Nestle product as fair trade or the view that supermarkets are benefiting from conscientious, ethical consumers by marking up the prices of fair trade goods to increase their profit margin. The most effective way to avoid a future lack of confidence in the fair trade system and to support consumers in their ethical shopping is by enabling them to understand the reasons behind such debated decisions in the ethical sector whilst continuing to promote the inherent benefits of fair trade. By making information on the subject widely available and accessible, the fair trade system will continue to be perceived as an accountable, transparent and trusted way for consumers to exercise their power ethically in the marketplace.

February 2007

Memorandum submitted by the Biscuit Cake Chocolate & Confectionery Association (BCCCA)

THE COCOA MARKETPLACE

There are a number of well established Fairtrade chocolate brands in the UK, in addition the major cocoa processors also offer a Fairtrade option. A recent review (2005) by the International Cocoa Organization estimated that Fairtrade chocolate accounts for less than 0.1% of cocoa tonnage (See appendix 1). Industry figures suggest that the Fairtrade market for chocolate is growing against a static market.

In development terms key questions are impact and scaleability. Fairtrade is one model for development and certainly brands such as Divine and Green & Blacks continue to have positive impact on communities in West Africa and Central America. Moreover both companies drive positive consumer perceptions of ethical trade.

In addition, the chocolate industry has developed a number of initiatives as part of its commitment to sustainable agricultural and ethical sourcing. These demonstrate how public-private partnerships can be an effective:

1. Labour Certification—a system to monitor, track and drive labour practice in the cocoa sector has been established in West Africa. This has been developed by the global chocolate industry in partnership with West African governments and NGOs.

2. Producer Networks—co-operatives and producer networks have been successfully established through the Sustainable Tree Crops Programme (STCP) (www.treecrops.org). Income gains have been seen by the farmers who participate. This has been funded by industry and through other Government donors.

3. Knowledge Generation—investment in knowledge generation via Farmer Field Schools has for the cocoa sector resulted in income gains at a farmer level. The global industry has re-committed to further investment in Farmer Field Schools via the STCP.

4. Company Initiatives—individual companies invest in programmes which support sustainable development and poverty reduction. These include:
   — Access to potable water
   — Education programmes
   — Social development programmes

(See appendix 2 for further information on these initiatives)98

IDC INQUIRY

In addition to reviewing the future impact of Fairtrade, we believe the IDC should consider reviewing:

1. How the wider food chain has developed ethical trading policies. Are there learnings from Fairtrade model which can be applied to the wider food chain and vice versa?

2. What other models such as public-private partnerships are applicable to particular market sectors?

97 Not printed.
98 Not printed.
International Development Committee: Evidence

QUESTIONS

The BCCCA has answered the following questions within the context of the chocolate and cocoa sector.

1. What has been the impact of donor funding for fair trade?

   Donor funding has certainly helped to establish fair trade brands in the UK.

   It is clear however that monetary input is only one of the factors for the success, and the commercial expertise brought to the brands by the companies involved has also been critical.

   Monetary input could bring scaleability to brand development; this could be achieved via donors or by the private sector.

2. How best can donors help to develop fair trade consumer markets in both developed and developing countries?

   Developed Countries

   It needs to be considered if the role of the donor community is to influence trading environments or if this expertise lies with the business community.

   For example, the chocolate markets in the Europe and North America are very mature with growth coming from premium brands. While there are ethical consumers who will choose foods because of a particular set of principles or guidelines, it is added value and quality which represent the market opportunity.

3. How can aid be more effectively mobilised to help producers improve the quality of their produce in order to access fair trade markets?

   The cocoa sector has a number of established cocoa quality programmes. The principles for success include:

   (a) Establishing or working with local organisations. For example:

       — Labour standards are a fundamental to the supply chain and a network of local experts has been established to conduct labour Certification activity.

       — The sector works with the already established Cocoa Research Institute of Ghana to better understand cocoa quality and productivity.

   (b) Creating a flow of communication from global experts to the village level. For example:

       — A global network has been established to share cocoa research and best practice.

       — Agricultural techniques are communicated at village level via the STCP programme.

   (c) Applying developed world principles appropriately. For example:

       — The labour Certification system brings modern statistical methods to an agricultural setting—this has to be a robust system for the developed world but implemented within the framework of the developing world and with the support of local governments.

4. Is there a role for donors in helping to develop the interests of producer communities in developing countries (for example, the Ethiopian coffee trademark dispute)?

   Geographical Indicators are being used effectively by the developed world. In the EU a number of member states including the UK continue to protect brands via this mechanism. It is critical that Geographical Indicators do not become another barrier to trade for the developing world.

   Where the donor community could potentially play a role is to enable countries in the developing world to identify products which could have this status.

   In the cocoa sector this has already taken place. Ghana cocoa is seen to be of a high quality and therefore commands a premium in cocoa markets. There is also a growing opportunity for “origin” cocoa—just as we have seen in the coffee and wine markets.

5. How does the international trade system impact on ethical and fair trade production (for example, the impact of changes in the EU tariff regime for bananas on small developing country producers)?

   The impact of the trade system is neutral for Ghana and Cote d’Ivoire, as in the EU there is no tariff escalation on cocoa or cocoa products from these countries.

   Cote d’Ivoire and Ghana (the principle providers of the world’s cocoa) both supply substantial cocoa products. In both countries there are good examples of state-of-the-art cocoa processing factories not only bringing local employment but also helping to prevent the “brain drain” often seen in the developing world.
While full scale chocolate manufacturing for export is more of a challenge, there is the potential for chocolate production and sales for local markets in West Africa. The barriers to growth are not tariff related. Establishing a base for economic growth is as fundamentally important as an equitable trading system—so for example: stable governments, good governance structures and transparency along with investment in infrastructure and education.

6. Do existing government guidelines on procurement of ethical and fair trade products provide an enabling environment for the development of this market and the opportunities for producers?

The support for Fairtrade by Government departments is an excellent example of policy into action. However, it must be noted that the recent DfES guidelines on food in schools prohibits the sale of any chocolate. This has taken away not only an important route to market for Fairtrade brands but also education opportunities through young enterprise initiatives.

7. What is the role of supermarkets, retailers and businesses in supporting ethical and fair trade production?

Businesses

Commercial realities need to be applied to any model—for it to be effective, sustainable and scaleable.

The activities funded by the global chocolate industry demonstrate the role business can and will play in driving sustainability and ethical standards.

However, the role of the business community is often over looked by the development community. The BCCCA supports the response made by Business Action for Africa to the recent DFID white paper on Eliminating World Poverty which states: “After all, it is only private-sector led growth that can finally and forever make poverty history.”

8. How can trade unions help to ensure that the drive for cheaper produce does not undermine social and environmental standards in developing countries?

The recent experience of developing a labour Certification system demonstrates that trade unions are one group that can help to drive standards. The continued success of the certification system is based on partnerships, with the most critical partners being West African governments. Trade unions and other NGOs have provided expertise.

The cocoa and chocolate industry has also established a foundation—the International Cocoa Initiative. This organisation demonstrates how industry and the NGOs, including the trade union sector, can work together towards a common goal.

9. In an increasingly crowded ethical marketplace how can consumers be supported to distinguish between different fair trade brands, labels and codes?

One rationale for providing brands and labels is to help establish a price premium.

While this may be appropriate for some areas of the ethical marketplace there is a need for other approaches. For example, the global chocolate industry believes that the issue of labour standards is pre-competitive. The labour Certification system developed for the cocoa sector aims to set and drive standards for the sector as a whole. Therefore a labelling system is seen to be inappropriate.

Any labelling system must not become an administrative burden for small or medium sized businesses. As the ethical consumer becomes more sophisticated there is the opportunity to develop more specialist and niche products such as single origin chocolate.

February 2007

Memorandum submitted by Business Action for Africa

A. THE IMPORTANCE OF FAIR TRADE

1. As members of Business Action for Africa,99 we strongly welcome this inquiry on fair trade and development. From our own first-hand experience of Africa, we recognise the important contribution that fair trade can make in giving people the opportunity to lift themselves out of poverty.

99 Business Action for Africa, set up at the time of the 2005 G8, is a business-led network of around 150 businesses, business organisations and non-business partners from Africa and around the world. The board of BAA includes Anglo American, De Beers, Diageo, Merck & Co., SABMiller, Shell, Unilever, Visa, DFID, DfES, UKTI and the Prince of Wales International Business Leaders Forum, which provides the administrative framework for BAA. BAA promotes collective action on advocacy, projects and knowledge sharing. It has six areas of focus: governance, trade, the climate for business, enterprise & employment, human development and perceptions of Africa. For more information, visit www.businessactionforafrica.org
2. Most importantly, fair trade centres on an enterprise-led solution to poverty reduction: wealth creation for poor people, not charity. It is the diverse private sector, large and small, that will deliver the growth, jobs and tax revenues needed to meet the UN’s Millennium Development Goals. Building trade links with small enterprises can be a particularly powerful way to drive down poverty.

3. The “Fairtrade” mark and other initiatives such as Rainforest Alliance certification have done much to raise public awareness and engagement in trade and fair trade issues. Customers increasingly expect large companies to have responsible supply chain practices, and there has been a dramatic growth in the fair trade market. According to Mintel, sales of Fairtrade goods in the UK are expected to rise to £547 million by the end of the decade, up from £195 million in 2005.

B. The Challenge of Mainstreaming

4. A key challenge is achieving greater scale and impact. The Fairtrade mark and other initiatives, while growing very successfully, cover a relatively a limited number of suppliers. The solution lies in mainstreaming the principles of fair trade across companies’ core business operations, in the form of ethical and transparent sourcing and procurement approaches across the full length of the value chain: supply, distribution and retail.

5. We, and the large majority of our peers, recognise the strong business, as well as moral, case for treating all of our suppliers fairly. A successful and sustainable supplier base underpins our own ability to deliver quality products to our customers efficiently and cost-effectively and therefore to deliver shareholder value and business growth.

6. A number of us have conducted research that shows a strong demand among our customers to have the option to buy ethically sourced products. Recent moves by a number of major retailers to offer more fair trade products will help bring new consumer groups to the fair trade category.

7. In this context, the evidence on the environmental impact of sourcing products from developing countries needs to be more clearly communicated. In practice, the less capital intensive production methods in developing countries is likely to more than offset the impact of transporting products to developed country markets.

C. The Bigger Picture: Trade

8. The fair trade discussion has usefully raised awareness about trade, but it is in no way a substitute for real trade reform. By far the greatest development impact can be achieved though enabling all African producers to trade—in the context of a fairer, rules-based, multilateral world trading system.

9. While precise estimates vary, a successful outcome of the currently stalled Doha Development Round of world trade talks will have dramatic benefits for developing countries. In 2006, the World Bank estimated potential overall welfare gains of US$287 billion, with around a third (US$90 billion) going to developing countries.

10. World leaders in the US, EU and larger emerging economies have an historic opportunity to deliver the trade conditions for growth and poverty reduction. Action is needed on market access to developed country markets, agricultural subsidies, rules of origin and tariff escalation. The lost opportunity that a failed trade round would represent could never be offset by the growth in “fair trade”.

D. The Role of Business

11. The greatest contribution that business can make to poverty reduction is by operating successful, profitable and responsible operations—generating trading opportunities for small enterprises and employment opportunities for individuals.

12. This includes building long-term, stable relationships with suppliers and distributors. And in the context of such partnerships, promoting responsible sourcing and procurement, as well as the growth of small and medium enterprises. Most businesses recognise the importance of promoting fair prices, fair wages and decent working conditions.

13. The “Fairtrade” mark has proven a very powerful way for engaging customers, and it works particularly well where farmers are already well organised with adequate basic infrastructure. A number of companies have very successfully introduced Fairtrade-certified products. There are very many others who share the basic objectives of Fairtrade but who are delivering these through other approaches.

14. Crucially, any initiatives must be embedded in the core business of a company, with a strong business case. This is far more sustainable than philanthropy. Increasingly, businesses are seeing the value of working collectively—with each other, with governments and with NGOs—to scale up their own impacts. Business-led collective action can take many forms—collective advocacy, joint projects and the exchange of ideas and good practice. We are involved in all three areas.

15. Examples of business action on fair and ethical trade are set out in the Annex.
E. THE ROLE OF GOVERNMENTS AND DONORS

16. African governments must do more to facilitate intra-African and South-South trade. This means enhancing customs administration, improving infrastructure and, more broadly, improving the climate for business. A central issue—which the fair trade discussion risks missing—is that fundamentally the challenge for Africa is to improve its trade capacity and competitiveness.

17. African producers—particularly those in the agriculture sector, the sector where the majority of poor people are located—need targeted support in at least three areas. First they need help to improve their efficiency and the quality of their products—so that they can take advantage of supply chain opportunities, and compete effectively. In agriculture this could mean enhanced access to fertilisers, irrigation and infrastructure. Second, producers need support to diversify, with an emphasis on finding new sources of competitive advantage. And third, they need support in moving up the value-chain—so that more value-adding processing, such as manufacturing and packaging, can take place domestically. Again, these areas can be missed in the fair trade discussion.

18. The priority for donors should be support for African-led efforts to improve intra-African trade and trade capacity in these markets. We therefore welcome DFID’s support for the Investment Climate Facility,100 Infrastructure Consortium for Africa101 and the proposed Africa Enterprise Challenge Fund. Where DFID engages in enterprise development, this should be demand-led—with a clear understanding of what enterprises need and what customers want.

19. Beyond that, we welcome DFID’s support for fair trade initiatives, including for the Fairtrade Foundation to help promote the Fairtrade mark. Further support should include capacity building for producers on the ground to help meet growing demand, and assistance to help fair trade systems become more efficient as fair trade moves from niche to mainstream.

20. In developing policies it is important to avoid any unintentional consequences that harm Africa’s small scale producers or that overly distort international or national markets. The cost of meeting CSR codes, for example, must not be allowed to exclude small scale farmers.

21. We encourage DFID to work in partnership with businesses and business organisations, such as ours, to share good practice. A partnership with an emphasis on continuous learning and progress will ultimately be far more effective than regulation or a box-ticking, compliance-based approach.

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Edward Bickham          Executive Vice President, Anglo American/Board of Business Action for Africa
Norah Odwesso           Corporate Relations Director, Diageo Africa/Board of Business Action for Africa
Brenda D Colatrella     Executive Director, HIV Policy & External Affairs, EMEAC Merck & Co., Inc./Chair of Business Action for Africa
Richard Morgan          Corporate Relations Adviser, Unilever/Board of Business Action for Africa
Albert Smith            Director, A Brighter Future
Baroness Chalker        Chairman, Africa Matters Limited
Tony Colman             Associate Director, Africa Practice
Dr Titi Banjoko         Director, Africa Recruit
Catherine Cameron      Director, Agulhas Applied Knowledge
Sipho Mseleku          Chief Executive Officer, Association of SADC Chambers of Commerce and Industry
Trevor Simumba         Managing Director, ATRADE Partners Ltd
Charles Chudi Chukwunai Director, Bendu Peter Services Nigeria Limited
Martin Summers          International Social Accountability Manager, Corporate and Regulatory Affairs British American Tobacco
Alison Ward             Communications Director, Biscuit Cake Chocolate & Confectionery Association
Charles Cullimore      Chairman, British African Business Association
Sandra van Lingen       Chief Executive Officer, British Chamber of Business in Southern Africa
D Neil Makin            External Affairs Director, Cadbury Schweppes plc
Richard Laing           Chief Executive, CDC
BUSINESS ACTION ON FAIR TRADE AND ETHICAL SOURCING

British American Tobacco

On a global basis two thirds of the tobacco supplied is through direct contracts with farmers with the other one third purchased from third party suppliers. BAT works directly with 37,000 farmers in Africa providing direct technical and financial support to ensure that the farmer’s full potential is realised. To promote sustainability throughout the entire leaf supply chain a programme pioneered and lead by BAT called Social Responsibility in Tobacco Production develops our suppliers as regards agriculture, environment, occupational health and safety and socio economic factors. We are working with NGOs on the impacts on ecosystems and environment. The management of forestry and biodiversity are components of the leaf strategy, encouraging the development of tree planting for tobacco curing fuel and minimising biodiversity impact of our operations. BAT is also an inaugural member the ECLT Foundation, a multi-stakeholder initiative that tackles labour issues in tobacco growing.

Business Action for Africa

The Business Action for Africa Enterprise Development Project is chaired by Anglo American, Barclays, Rio Tinto, SABMiller, Shell Foundation and Unilever. This is exploring the scope for collective action though companies’ supply chains—from enterprise development through to advocacy, with an initial focus on Kenya, Ghana and Zambia.

Cadbury Schweppes

Cadbury Schweppes has two goals on sourcing: to maintain its ethical sourcing standards, and develop sustainable sourcing programmes for its agricultural raw materials. Its ethical sourcing strategy focuses on working with its suppliers to continue to improve workplace conditions and sustainable agriculture. The company shares with the fair trade movement a commitment to improve the livelihoods of cocoa farmers and their families. For nearly 100 years, the company has worked with colleagues in Ghana and now plays a leading role within the International Cocoa Initiative to help raise levels of working conditions, sustainable farming practices and community prosperity. The company’s focus has been to help improve standards of living by developing sustainable high quality crops that generate a long term and higher return for all farmers. The company has helped establish programmes in this area, such as the Sustainable Tree Crops Programme.
Diageo

Since the 1980s when Guinness Nigeria pioneered the use of locally-grown sorghum and maize in brewing to replace more expensive imported grains, we have continued to invest in locally grown cereals and new technologies in West and East Africa to help local farmers increase their output and secure long-term sustainable income. More recently, in Ghana and Sierra Leone we are supporting the development of sorghum in areas where poverty is high. We also provide skills training and access to farming products to help local farmers improve their productivity.

Ethical Trading Initiative

The Ethical Trading Initiative (ETI) is an alliance of companies, non-governmental organisations (NGOs) and trade union organisations. ETI aims to improve working conditions by promoting and improving code implementation. Their NGO, trade union and corporate members work together to identify what constitutes “good practice” in code implementation, and then promote and share this good practice. ETI also encourages companies to adopt the “ETI Base Code” and implement it in their supply chains.

Marks and Spencer

Last year, M&S became the first major retailer to switch all the coffee and tea it sells to Fairtrade. This alone is estimated to have increased the value of all Fairtrade instant and ground coffee sold in UK supermarkets by 18%, and increased the value of Fairtrade tea by around 30%. This follows their decision in 2005 to sell only Fairtrade coffee and tea in their Café Revive coffee shops, the UK’s third largest chain of coffee shops—a move that it is estimated will grow out-of-home sales of Fairtrade coffee and tea by 23 and 11% respectively. In 2006, M&S was also the first major high street retailer to introduce a range of Fairtrade cotton clothing. Its “Look Behind the Label” campaign communicates its position on CSR issues of most concern to customers, including on ethical standards. M&S’ research shows shoppers want to be able to buy more Fairtrade products.

Nestlé

In 2005, Nestlé UK launched a Fairtrade certified coffee—Nescafe Partners Blend—as part of a long-term commitment to developing sustainable agricultural practices. Its suppliers for Partners' Blend are all smallholders from El Salvador and Ethiopia who have been adversely affected by the regular fluctuations in coffee prices. Nestlé research indicates the product will appeal to a new consumer group that, while not currently regular purchases of Fairtrade coffee, are predisposed to fair trade and/or sustainable products.

SABMiller

By switching to an indigenous raw material—sorghum—and using small-scale farmers to supply it, Nile Breweries (Uganda) and Zambia Breweries have been able to replace expensive imported ingredients to produce Eagle Lager. Now an award winning product with market shares of 50 and 15% in Uganda and Zambia, Eagle has brought significant financial benefits to the businesses and to farmers—with over 10,000 now with access to a new, credible and long-term market with guaranteed prices. More generally, SABMiller has adopted a set of responsible sourcing principles covering business conduct, working conditions, employment, child labour, wages, diversity and freedom of association.

Shell Foundation

Africa’s entrepreneurs—not increased aid and debt relief—will drive the economic growth Africa requires to pull itself up. The Foundation’s “Trading UP” programme unlocks markets for developing world producers through the provision of appropriate finance, business development assistance and access to “mainstream” markets through strategic partnerships with major retailers such as Marks & Spencer. Its vision is to transform retail supply chains—taking goods from the fields and workshops to the retailer’s shelves—so that they positively contribute to poverty alleviation while still making commercial sense. The foundation supported one small Ugandan dried fruit company with some seed-capital to buy computers and train its staff, and helped it access financing from a local bank so that it could build a new processing plant. Three years on, one thousand jobs have been created and the company is selling its produce in more than 700 Tesco stores in Britain.
Memorandum submitted by Cafédirect plc

SUMMARY

1.1 Cafédirect welcome the opportunity to submit evidence to the International Development Select Committee on Fairtrade and development. This submission draws upon the experience we have gained over the last 16 years as a business, which balances the business of making money with making lives better. Our mission is to strengthen the influence, income and security of growers and link them directly to consumers by maintaining our position as the leading Fairtrade hot drinks company. It outlines our recommendations and highlights key examples of Cafédirect work.

1.2 We believe that public private partnerships can be an effective way to deliver initiatives and meet overall global development goals—enhancing and spreading impacts where it counts, with the marginalized rural population. Cafédirect always looks at building strategic alliances with institutions and other agencies in order to create a shared development agenda. However the involvement of the public sector is missing in the majority of our work which would ensure a greater impact eg local market development.

1.3 We suggest Government should work more closely with the private sector to understand the practical and commercial realities of working on the ground in developing countries. It is imperative that the strategic framework is not theoretical, and excluding of the private sector realities. This engagement would provide vital understanding and learning, which could further benefit overall goals. Cafédirect recently participated in the International Trade Centre Executive Forum Global Debate, 2006 to provide a business perspective on addressing some of the key development issues.

1.4 Cafédirect has experience of working with DFID on a few joint funded projects:

(i) For the past two years, Cafédirect has been working with our six tea partners in Uganda and Tanzania on the implementation of Hazard Analysis Critical Control Points (HACCP) food safety methodology. The project has been partly funded by the Department for International Development (DFID) through its Business Linkages Challenge Fund. The programme has successfully assisted all six participating factories to operate under HACCP systems and trained 12 key factory personnel. It has also developed local capacity by training four auditors to BRC level. Tea growers’ future international business success depends on implementing the HACCP system as it means growers are better positioned to secure additional finance and break into new markets.

(ii) Through one of our Producer Partnership Programme partners DFID part funded a market research project to assess the potential for smallholder tea sales into South Africa initiative where we supported a market research project to assess the potential for smallholder. This research was part of our objective to help support growers to understand local market opportunities for their crops.

1.5 We also believe that the retailers, and other businesses involved in Fairtrade have a substantial role to play in communicating to consumers about the benefits of Fairtrade and the differences between the ethical labels.

1.6 There are a number of key areas where we believe donors can play a key part in helping to develop the interests of producer communities in developing countries: setting up incentives to support small-scale growers; financial support for scaling up business operations; better co-ordination and co-operation of local/regional/ national government bodies, and the donor community.

2. INTRODUCTION

2.1 About Cafédirect

(i) Cafédirect is the United Kingdom’s leading 100% Fairtrade hot drinks company. Its tea, coffee and cocoa products are supplied by 37 producer partners in 12 different countries, affecting over one million growers and their families. Established as a company with explicit development aims, Cafédirect aspires to be the leading brand which strengthens the influence, income and security of

Unilever

Unilever works with thousands of small farmers and suppliers to manufacture and distribute food and household products. Together with The World Conservation Union, Netherlands Development Organisation and The World Agroforestry Centre, Unilever is helping local communities and small businesses to cultivate Allanblackia seeds, which are rich in an oil with unique properties that can be used to produce food products and soap.
producer partners in the South, by linking them directly to consumers in developed countries. While Fairtrade Labelling Organizations International (FLO) provides the industry standard, Cafédirect strives to surpass it.

(ii) A rapidly expanding social enterprise, Cafédirect is publicly owned and profitable. Having floated in 2004, the company generated revenues of £19.5 million in financial year 2004–05 and paid its first dividend as a public company to over 4,500 shareholders in April 2005.

2.2 The Cafédirect Business Model

(i) By linking consumers directly to producers, and by offering quality products, Cafédirect “de-commodifies” globally traded agricultural produce. This is achieved through a business model founded on a distinctive approach to partnership, purchasing and ownership. These three factors are central to Cafédirect’s “Gold Standard”, which sets out the terms of business, by which commercial objectives and development goals are delivered.

(ii) There are three ways in which our growers receive income and support. Firstly through the premium, secondly through the PPP (see below) and thirdly through any profit distribution.

2.3 Partnership

(i) Cafédirect’s Gold Standard specifies that partnerships with growers are long term relationships, which are based on trust, transparency and commitment. Once grower partners are incorporated into the Cafédirect supply chain, they receive substantial technical and financial investment to strengthen the efficiency and competitiveness of their operations. This investment, delivered through the Producer Partnership Programme. The aim of this work is to strengthen the business performance of our grower partner organisations. This ensures a solid base for returning greater benefits to the growers, their organisations and their communities, as well as for expanding Cafédirect’s business. The programme is flexible, strategic and responsive to market conditions, designed to reflect different grower organisations’ specific needs, as well as Cafédirect’s. In financial year 2004–05 Cafédirect invested £574,000 representing 86% of its operating profits in its Producer Partnership Programmes.

2.4 Pricing

(i) Cafédirect’s Gold Standard pricing model guarantees that the premiums we pay to growers for all commodities—tea, coffee and cocoa are higher than the FLO minimum price standards.

(ii) The amount paid to growers from commodity purchases by Cafédirect totalled £1.6 million in 2004–05.

2.5 Ownership

(i) A further, distinctive, characteristic of the Cafédirect business model is that producer partners have a share in the company. Cafédirect Producers Limited own 5% of group equity. This sets Cafédirect apart from many other Fairtrade suppliers and ensures that stakeholders throughout the supply chain are aligned to the same commercial and development goals.

(ii) Two places on the Cafédirect board are reserved for representatives of producer partners. In addition, as shareholders, producer partners have decision-making powers, and appoint a representative to vote on their behalf at Cafédirect’s Annual General meeting in London each year. In addition to inclusion in corporate ownership, producer partners also have autonomy over local investment decisions and local development priorities.

3. What has been the impact of Donor Funding for Fairtrade?

3.1 Whilst the funding has not been significant in scale it has been extremely successful.

3.2 For the past two years, Cafédirect has been working with our six tea partners in Uganda and Tanzania on the implementation of Hazard Analysis Critical Control Points (HACCP) food safety methodology. The project has been partly funded by the Department for International Development (DFID) through its Business Linkages Challenge Fund. The total funding was £86,218 over two years.

3.3 The market for tea largely operates on the principles of supply and demand but due to the current position of oversupply in the world market place, improving the quality of the tea made is now seen as a priority to any producer in order to enhance competitiveness. It is generally accepted that quality is key to increasing market share in both the Fairtrade as well as other mainstream markets.

3.4 Although the BLCF funded part of the HACCP programme came to an end this year. The programme has successfully assisted all six participating factories to operate under HACCP systems and trained 12 key factory personnel. It has also developed local capacity by training four auditors to BRC level. Tea growers’ future international business success depends on implementing the HACCP system as it means growers are better positioned to secure additional finance and break into new markets.

3.5 Cafédirect will continue to support the groups as they work towards HACCP accreditation.
3.6 We believe there is an opportunity to increase public private partnerships. The voluntary, public and private sector can together play an important role in addressing and solving key development challenges facing the world today.

4. How best can donors help to develop Fairtrade consumer markets in both developed and developing countries?

4.1 Donors have a role to play in raising awareness of Fairtrade, and communicating the Fairtrade message to consumers. There is a need to develop awareness and understanding of the link between trade and development in order that consumers can make truly informed purchasing decisions and so help build markets for sustainable businesses from the South.

4.2 Donors have a role in ensuring that disclosure from companies on the full costs of production (social, environmental as well as financial)—whether voluntary or mandatory— is accurate and accountable. This will help consumers to understand, and assess the impact of their consumer purchases.

4.3 Donors can ensure that procurement policies do not discriminate against Fairtrade. They should ensure that Fairtrade products are considered, and given preference within national procurement policies both in developed, and also developing countries. For example Mexico, a transitional economy has already established their own national Fairtrade mark, which recognises the growth of Fairtrade within their own markets.

4.4 We believe that there should be increased funding to initiatives which specifically address improving market access, and gaining marketing selling, and technical skills for the most marginalized groups.

4.5 Donors should ensure there is a coherent strategy, SMART indicators and criteria in place to make meaningful assessments of the effective delivery and impact of the initiatives. The business community should play a vital role in developing this.

5. How can aid be more effectively mobilised to help producers improve the quality of their produce in order to access Fairtrade markets?

5.1 Fairtrade is currently an effective instrument in a long term strategy aimed at poverty reduction. To enhance and spread impact, Cafédirect always looks at building strategic alliances with institutions and other agencies in order to create a shared development agenda. However the involvement of the public sector is missing which would ensure a greater impact eg local market development/skills development.

5.2 Cafédirect’s focus is on smallholder production: the impact is generated where it really counts—with marginalized smallholder growers and their communities within a wide geographical impact area. (We currently work with 37 grower organisations in 12 countries.) In addition Cafédirect takes a wider strategic approach to sourcing of our raw materials. This means they are not necessarily sourced from the most well-known grower regions, but also from countries/regions that can offer higher developmental impact for the population, for example Haiti; southern Mexico, East Africa. In contrast many of the other ethical initiatives are often focused on estate/plantation level. This reduces the scale of impact to wider communities. They also source predominantly from major production countries. We therefore believe aid could be more targeted at the most marginalized groups.

5.3 As previously stated the jointly funded HACCP project is an excellent example of a successful public private partnership and illustrates how the private sector can provide a crucial link in enabling producers to access markets. Implementing quality assurance procedures will ensure that these producers remain competitive within the market place, as they endeavour to move away from the traditional route of selling teas through auction and branch out into increasing their direct sales of tea to larger blender/packers and suppliers of supermarkets within the UK as well as Europe. All of these channels will require producers to be audited to the BRC Global Standard—Food, as well as demonstrating an understanding of HACCP principles in the processing of the final product.

5.4 In addition we provide information on consumer markets, and introduce our grower partners to other Fairtrade buyers. It is important that aid helps to build capacities and capabilities within the developing countries. However business can provide the crucial link to ensuring that the producers can sell their product in the consumer markets, and build sustainable businesses.

5.5 Through our Producer Partnership Programme Cafédirect has recognised the importance of investing in programmes on quality improvement, which is a basic condition for successful access for our producer partners. For example at the Gumutindo co-operative in Uganda, coffee tasting workshops were run for growers to improve their understanding of the relationship between green bean quality and how it tastes in the cup. Gumutindo is revitalising the reputation of coffee from its region—one reason why it was able to increase its volumes by a further 33% during 2004–05. There is an opportunity for the private sector to share experiences and work more closely with donors in order to meet strategic goals.
6. Is there a role for donors in helping to develop the interests of producer communities in developing countries (for example, the Ethiopian coffee trademark dispute)?

6.1 Smallholder organisations in capacity building

Governments should set in place certain “incentives”, which could include assigning priority of technical and financial services to smallholder organizations and their members. There are a range of governmental programmes for small-business development and support, in most cases financed by international development organisations, but small-scale growers are usually not able to access those programmes. This is due to their geographical and/or social marginalization. Smallholder organisations should be enabled to access existing national initiatives, and not rely on continuous international support.

6.2 Financial support for scaling up business operations

Today smallholder businesses have limited access to financial markets, which is essential if smallholder businesses want to invest at the higher end of supply chain to add value to their products. National policies should facilitate this access.

6.3 Better co-ordination and co-operation of local/regional/national government bodies in developing countries

Fairtrade premiums do have an important development impact in communities, often where Government interventions in social services are lacking. However there is a danger that these projects substitute Government actions, and therefore there is a clear need for better co-operation between local/ regional/ national government institutions and smallholder organisations. This will ensure better synergy for Fairtrade social premium community projects.

7. How does the international trade system impact on ethical and Fairtrade production (for example, the impact of changes in the EU tariff regime for bananas on small developing country producers)?

7.1 Fairtrade was established to support marginalised producers access appropriate markets including local, regional and international markets. Developed-country tariffs for processed agricultural goods are often much higher than for raw materials. This poses a critical barrier to the development of export markets in many goods. It also deprives producers of the ability to add value to their goods. Cafe´direct aims to works with its grower partners to create added value down the supply chain. Donors have a role to play in addressing the trade system at an international policy level, and also supporting initiatives on the ground that work towards producers scaling up and become more involved in the supply chain.

8. Do existing government guidelines on procurement of ethical and Fairtrade products provide an enabling environment for the development of this market and the opportunities for producers?

8.1 Cafe´direct successfully built its brand, achieving strong sales growth through retail grocery channels. It is currently the sixth largest coffee brand in the UK and seventh largest in tea. Huge success is now being witnessed for Cafe´direct in the out-of-home market, where sales soared 59% in Financial Year 2004–05. Out-of-home sales now account for 12% of Cafe´direct’s total sales.

8.2 The Government has clearly expressed a desire to support social enterprises through the recently published Action Plan. They define their role as “to create social enterprises but to create an environment that allows them to succeed.”

8.3 A clear way of supporting social enterprises and taking leadership on this issue would be to encourage public sector institutions to purchase Fairtrade products. The Action Plan even goes on further explain the role of government as “raising awareness among potential investors and customers . . . and are included in public service delivery, we aim to help create the conditions to enable them to succeed.”

8.4 As a first step Cafe´direct urge the Government to give Fairtrade a boost by publicly supporting and promoting it through more flagship projects such as the 2012 Olympic games. Cafe´direct welcomed the announcement by the Scottish and Welsh government to become Fairtrade countries and encourage Westminster to follow suit.

8.5 We believe it is important for the Government to work across departments on its guidelines to ensure a consistent and joined-up approach.

9. What is the role of supermarkets, retailers and businesses in supporting ethical and Fairtrade production?

9.1 We welcome the involvement of supermarkets, retailers and businesses in supporting ethical and Fairtrade production and urge everyone involved to take a long-term approach to ethical and Fairtrade production. Our Producer Partnership Programme is a true long-term partnership between Cafe´direct and its grower partners—a business relationship conceived by all to be a shared investment, and one which is flexible, strategic and responsive. This is vital in order to achieve change and real impact of the ground.

9.2 Regardless of being involved in a Fairtrade product it is important for everyone to be encouraged to look at their practices throughout the supply chain. In particular those practices which have a negative impact on the small-scale growers. It is important to address the unbalanced trading relationship which will ultimately benefit the developed and developing world.

10. How can trade unions help to ensure that the drive for cheaper produce does not undermine social and environmental standards in developing countries?

10.1 This is a task for the private, public and voluntary sector as well as trade unions.

11. In an increasingly crowded ethical marketplace how can consumers be supported to distinguish between different Fairtrade brands, labels and codes?

11.1 The growing phenomenon of ethical consumerism has led to the proliferation of ethical trade schemes and of sustainability standards, not only for agricultural products but increasingly for other goods as well (clothing, footwear, toys, forest products etc). This has led to increasing confusion for the UK consumer on what each label stands for and the benefits of each scheme.

11.2 Companies, and Governments, must continue to find ways to get the message across that different ethical labels are not the same and also achieve different in their impacts on the ground. The growth in Fairtrade sales highlights the recent success in bringing the message to a mainstream audience, to people who have previously been untouched. But the challenge now is in ensuring peoples’ understanding of the depth of the issues. There is a need to develop greater awareness among consumers on the link between trade and development, in order that they can make truly informed purchasing decisions and so help build markets for sustainable business from the South.

11.3 Cafédirect’s trading and business model is helping to transform attitudes, markets and lives. And to compete effectively in the market place the marketing and brand communications to the consumers must be revolutionary. It is important to stress that the Fairtrade mark is a certification mark and not a brand. It is the role of any brand to communicate its unique selling proposition and how it is different from other brands.

Marketing a Cafédirect product depends on communicating a number of different messages; product quality, the unique Gold Standard Fairtrade trading and business model, and how growers benefit from this. It’s a complex communications challenge and one that we have responded to through a variety of partnerships, live events and innovative promotions eg Flight 5065, Teadirect decency campaign. We also support retailers to raise awareness of Fairtrade. In addition we would welcome retailers continuing to develop their awareness programme throughout the year not just at Fairtrade Fortnight, and ensure there are clear signposts in store, point of sale material and shelf barker explaining the labels and codes.

February 2007

Memorandum submitted by the Caribbean Banana Exporters Association (CBEA)

THE CBEA

The CBEA represents the interests of the banana trade in the Commonwealth Caribbean, namely in Jamaica, Belize, and the four Windward Islands of St Lucia, Dominica, St Vincent & the Grenadines, and Grenada. In doing so, it works closely with the exporting and importing companies.

THE CARIBBEAN INDUSTRY

Banana production in the Caribbean is very different in scale and nature from production on the large plantations of Latin America, which dominates the US and European trade. In the Windward Islands in particular, production is based on small family farms, often on difficult terrain. These and other geographical factors make it impossible for them to compete on price with industrial scale Latin American production. But the Commonwealth Caribbean trade was founded on preferential market access provided by the UK. Indeed, the successful development of a banana export trade to Europe in the nineteen fifties helped to lift the Windward Islands out of the dire poverty that had previously prevailed (and had been deplored by a Royal Commission on the West Indies, whose Report was presented to Parliament in 1945 (cmd 6607)).

Following UK entry into the EU, the trade has been sustained, in varying degrees, under successive import regimes adopted by the European Community. Production in Jamaica and the Windward Islands has declined substantially in recent years as a result of changes to these regimes necessitated by successive WTO rulings, but their banana exports remain socially and economically important, particularly in the Windward Islands.
THE ROLE OF FAIRTRADE

Virtually all farmers growing bananas for export in the Windward Islands belong to the Fairtrade scheme and meet the required Fairtrade production standards. Concentration on the Fairtrade market has been vital to ensuring growers a viable return and enabling the Windward Islands’ industry to survive in an increasingly difficult and competitive market. But the Fairtrade scheme can only continue to meet the needs of growers so long as the EU regime provides a viable market for them. Unfortunately, prospective changes to the current EU import regime threaten to render this impossible and undermine the Fairtrade programme in these islands.

THREATS TO THE VIABILITY OF FAIRTRADE IN THE CARIBBEAN

The viable return guaranteed to Caribbean producers under the Fairtrade scheme depends on two key factors: that Caribbean bananas continue, as in the past, to enter the EU free of duty; and that the market is able to return a price sufficient to maintain the Fairtrade guarantee of returning a price that at least meets the cost of production. However, both of these essential conditions are at risk.

TARIFF REDUCTION AND PREFERENCE EROSION

Until 2006, prices in the EU market had been maintained at reasonable levels by means of a system of tariff quotas, which effectively limited the total volume of bananas on the market. There had been a tariff on MFN (Latin American) imports of 75 euros per tonne up to a quota of 3.1 million tonnes and of 680 euros for imports above that volume. For bananas from ACP countries, there was a duty-free quota of 750,000 tonnes and a duty of 380 euros above that level. In January 2006, this system was replaced by unrestricted entry for all at a tariff of 176 euros per tonne, but with a duty-free quota of 775,000 tonnes for ACP imports. The EU indicated that this was intended to be broadly equivalent in its effect on the market to the previous tariff quota regime. However, the removal of effective restrictions on volume has inevitably resulted in greater import volumes, from both Latin American and ACP countries, and consequently to lower prices.

Current initiatives could well result in further substantial price falls. Firstly, a number of Latin American countries, led by Ecuador, have initiated proceedings in the WTO challenging the new tariff level and seeking to secure its reduction. Secondly, the EU has opened negotiations for Association Agreements with Central American and Andean pact countries. If these are successfully concluded they are likely to provide preferential terms of entry for Latin American bananas. Each of these factors would lead to still larger import volumes and lower prices; and would also erode the vital tariff preference on which the small Caribbean growers depend.

DUTY-FREE ACCESS

Prior to the changes introduced in January 2006, Caribbean bananas had been assured entry under the ACP duty-free quota by allocations to operators based on past performance. The duty-free quota for ACP countries was then switched largely on to a first come, first served (FCFS) system. This is a free-for-all under which shipments that arrive after the quota for the relevant period has been exhausted have to pay the full MFN duty. Since total ACP export production substantially exceeds the quota, exports to the EU also far exceed the available quota. Consequently, some ACP imports inevitably incur duty. This is a cost that the largest and most competitive ACP producers, notably in West Africa, may be able to afford but which is completely beyond the means of the Caribbean growers. It means that the larger more competitive ACP suppliers could take a greater share of the quota at the expense of their smaller less competitive ACP counterparts in the Caribbean.

These problems should, in principle, be resolved by the conclusion of the Economic Partnership Agreements (EPAs) that are currently being negotiated between the EU and the different ACP regions during for application in 2008. The EPAs are intended to be free trade agreements that would ensure duty-free entry for all ACP imports, eventually on a reciprocal basis. But these agreements may not be concluded on schedule; and if the EU move in 2008, as they have intimated, to administering the ACP import quota on the basis of 100% FCFS, this will exacerbate the difficulties for the banana industries of the CBEA countries and put at risk their very survival. Fairtrade has helped and will continue to help but it is not a panacea and by itself could not save the Caribbean banana trade. Indeed, the rapid expansion of Fairtrade and the adoption of the scheme by the large producing entities is increasing competition within the Fairtrade segment of the market, commoditising the Fairtrade product and putting increasing pressure on prices.

CONCLUSION

These threatened developments could well render it impossible for the Fairtrade prices currently guaranteed to growers to be sustained in the future. There is a grave danger that the resolute march to free trade will have as a by-product the destruction of a trade that has hitherto played a crucial role in the economic and social structure of the Windward Islands and of parts of Jamaica.
Each of these countries has done what it can in recent years to adapt to changing circumstances and to this end has deployed funds granted by the EU under its programme of Special Financial Assistance (SFA). But neither the topography nor the sizes of the islands make it possible for them to compete in the race to the bottom that will be initiated in a free market for a commodity in structural surplus. Fairtrade bananas will continue to be imported from the more competitive countries, which already provide most of the Fairtrade imports into the EU. But without adequate market safeguards, the Fairtrade scheme will be of little or no value to the Windward Islands. Some transitional arrangement is needed to mitigate the consequences of this policy for the smallest and most vulnerable countries.

This would be fully consistent with the policy adopted by the EU towards its own banana growers. The EU has recently reformed the system of support for these producers, replacing the previous deficiency payments system by aid unrelated to production volumes. But in introducing these reforms the EU has recognised the need to take account of the special circumstances of these outlying regions, where “Production of bananas is disadvantaged in particular by the remoteness, insularity, small size and difficult topography of these regions. Local banana production is an essential element of the environmental, social and economic balance of the rural areas in those regions” (Council Regulation (EC) 2013/2006). These arguments apply word for word to the Windward Islands, which are the immediate neighbours of the French islands of Martinique and Guadeloupe to which the EU domestic aid system applies. It would surely be unreasonable and grossly inequitable for the EU nevertheless to press ahead with further measures of liberalisation, without taking steps to prevent the otherwise inevitable social and economic damage these would cause in the Eastern Caribbean.

It cannot be right for the EU to abandon its obligations to the Caribbean countries concerned on the grounds that Fair Trade will take care of them. It would be cynical indeed to do so while creating market conditions that render this impossible.

February 2007

Memorandum submitted by the Co-operative Group

1. The Co-operative Movement comprises 30 retail Co-operative Societies operating some 4,000 retail units in communities throughout the UK.
2. The Co-operative Group is the largest Co-operative Society in the UK operating as a consumer-owned co-operative. Food retailing is core to our activities, providing almost half of the Group’s turnover with £3 billion of sales.
3. The Co-operative Group provides the Movement’s own label, Co-operative Brand, comprising some 4,000 lines. Through the Co-operative Retail Trading Group, an organisation of Co-operative societies, it provides the buying and marketing functions for all these UK consumer-owned co-operatives with a combined turnover of over £5 billion.
4. The Co-operative Group works closely with the Co-operative College, which leads a consortium of co-operative enterprises working with DFID under a Strategic Grant Agreement (SGA).

Background

5. The Co-operative Group is proud to be the leading retail supporter of Fairtrade in the UK. We have pioneered an award-winning approach to Fairtrade development, which focuses on quality products and a strong campaigning stance that has brought Fairtrade to the mainstream. We welcome other retailers following our established lead in the UK Fairtrade market.
6. This year, sales of Fairtrade products through Co-ops will exceed £40 million—a 25% share of the Fairtrade grocery sector and we remain as committed as ever to building on this. We will continue our investment in advertising, promotions, product development, campaigning and support at community level through our members.
7. The principles of Fairtrade are aligned to our co-operative values and principles, which include democracy, equality, concern for the community and social responsibility.
8. We have always supported Fairtrade and we seek wherever possible to ensure that producers in developing countries receive a fair reward and that workers have safe and decent conditions to operate in.
9. Our strategy to grow the retail market for Fairtrade products was developed in parallel with the launch of the FAIRTRADE Mark by the Fairtrade Foundation over a decade ago. Our Fairtrade strategy aimed to expand our range of Co-operative Brand Fairtrade products, integrate Fairtrade into our retail offer and focus on building awareness to raise the profile of Fairtrade amongst our members and customers. Fairtrade products are available in all of our 1,700 food stores.
10. Having pioneered the retail development of Fairtrade, the Co-operative Group is delighted to see the growth in the market and consumer awareness, which has led to an increase in demand for Fairtrade products.
11. It has also been particularly encouraging to witness the recent increase in Fairtrade activity in other food retailers, something that the Co-operative Group has campaigned for over many years. We continue to have a wider range of Fairtrade products in more stores than any other retailer, improving consumer access wherever possible to further drive sales.

OUR FAIRTRADE HISTORY

12. In 1992 The Co-operative Group was the first major retailer to sell Cafedirect coffee. Since then our product range has expanded to more than 140 lines including a diverse range of own brand Fairtrade products that includes: coffee, chocolate, wine, honey, sugar, cakes, mangoes, bananas and ale.

13. The combination of typical commodity lines, supported with creative and pioneering development in newer areas has helped to maintain an ongoing interest in Fairtrade and widening of the consumer base. Since 1998 our Fairtrade strategy has underpinned our ongoing commitment to the development of the Fairtrade market. This aimed to:
   — Position us as the leading retail supporter of Fairtrade.
   — Bring Fairtrade into the mainstream of UK retailing.

14. We believe that we have met these objectives. The Co-operative Group has been recognised as pioneers of Fairtrade and are proud of our many “Fairtrade Firsts” including:
   — first to bring Fairtrade bananas into the UK;
   — first to launch an own brand FAIRTRADE Mark product;
   — first to convert our entire own brand range of coffee and chocolate bars to Fairtrade;
   — first to launch fairly traded wines, helping develop standards leading to the launch of FAIRTRADE Marked wines; and
   — first with products such as pineapples, mangoes, grapes and peanuts.

ENGAGING WITH OUR MEMBERS AND CUSTOMERS TO INCREASE AWARENESS OF FAIRTRADE PRODUCTS

15. The Co-operative Group is committed to developing a knowledge and awareness of Fairtrade at a local level. Our members are critical to raising awareness in their local area through campaigning activity and helping out at Fairtrade events.
   — Since 1998 we have been established as the leading retail supporter of Fairtrade Fortnight. Our support has included in-store promotional features, which are supplemented by our members calling for voluntary membership action in-store to help raise consumer awareness of Fairtrade. During Fairtrade fortnight the Co-operative Group will once again be offering a discount of 20% off all Fairtrade products.
   — The Co-operative Group has launched a Fairtrade towns guide, a useful tool kit that gives practical help to consumers, members and relevant organisations to campaign together to achieve Fairtrade Town status for their community. In 2000, for instance, the Co-operative Group was instrumental in supporting Garstang to become the World’s First Fairtrade Town. We were delighted that in 2005, we were able to support Manchester and Salford in becoming the joint 100th Fairtrade Town.
   — In October 2005 the Co-operative Group, in partnership with the Co-operative College launched a “Make your School Fairtrade Friendly” guide for primary schools. This guide recognises the importance that primary schools can play in the development of Fairtrade and is designed to help teachers and pupils gain an understanding of what Fairtrade is and how they can promote and support it. The Co-operative Group has worked with many schools in developing a Fairtrade agenda and is inviting up to 10,000 children into stores at Fairtrade Fortnight to learn about both the social and health benefits during special Fairtrade fruit tastings.
   — In 2005 we launched a website dedicated to giving customers as much information as we could about the Fairtrade products they were buying. www.co-opfairtrade.co.uk highlights the people behind the products and encourages consumers to help by showcasing individual beneficiaries of Fairtrade.

LABELLING OF FAIRTRADE PRODUCTS AT THE CO-OPERATIVE GROUP

16. Clear labelling plays a vital role in helping people know exactly what they are buying. In an increasingly crowded ethical marketplace we recognise that consumers buying Fairtrade products need a clearly displayed Fairtrade label which gives them a guarantee that the product meets international Fairtrade standards.

17. The Co-operative Group believes that the FAIRTRADE Mark awarded by the Fairtrade Foundation is the only independent consumer guarantee for individual products, which meet international Fairtrade standards regarding terms of trade and conditions of production.
18. Distinctive packaging, together with the FAIRTRADE Mark, readily identifies the diverse range of products in the Co-operative Brand range, which meet the criteria of the Fairtrade Foundation.

19. We are concerned about the growth of copycat labelling initiatives, which are not as rigorous as the FAIRTRADE Mark.

**FAIRTRADE IN ACTION**

20. It is clear that consumers are motivated to purchase when the benefits of Fairtrade are highlighted to them. We provide as much information as we can to maintain this “grower-consumer connection”. From our cocoa growers in the Kuapa Kokoo co-operative in Ghana, the coffee co-operatives in Central America who provide our beans, or the sugar farmers in Malawi, we maintain strong direct links and communicate to customers just how their purchases are helping.

21. Fairtrade wines guarantee small-scale farmers a fair price for their grapes and an additional premium generated from the sales helps to improve the working and living conditions of the community as a whole.

22. Our most significant development in 2006 has been the work within the wine category and establishing partnerships that will really make a difference to so many people.

23. The Co-operative was the first supermarket to launch an own brand fairly traded wine with The Co-operative Chilean Carmenere in 2001.

24. Back then there was no formal accreditation for wines from the international Fairtrade movement so, in partnership with Traidcraft, the UK’s largest independent fair trade organisation, we pioneered a fair and supportive trading relationship with Los Robles Co-operative to produce our first fairly traded wines. At the same time we began to help develop the international Fairtrade wine standards that eventually gave rise to the first FAIRTRADE Mark wines—initially from South Africa, but since then includes Chile and more recently Argentina.

25. In Argentina, the growers in the co-operative receive a Fairtrade premium for the grapes used in each case of wine and the Co-operative Group has matched this premium—effectively doubling the social premium. A committee, made up of producers and winery workers meets regularly and decides democratically how the extra revenue from the social premium is spent to benefit the whole community.

26. The first project agreed will help a community of workers in the village of Tilimuqui. Nearly 100 people live in this area, and presently there is no regular water supply to the houses. The social premium will be spent on renovating an old water supply with the addition of a well and pump so that each household will have access to regular, clean water. This is the first time that the community has had this kind of opportunity.

27. In South Africa, The Du Toitskloof Cellar production supports over 780 people, 350 of who are children. All employees have their own homes and 85% have running water and electricity but there are still improvements to be made to the living and working conditions of the employees and their families.

28. In 2004, 10 grape producing farms achieved Fairtrade accreditation and in 2006 the Co-operative Group agreed a five-year contract guaranteeing the purchase of wine until 2010. This long-term commitment gives the growers and producers the financial security to plan for the future, make investment in their vineyards and winery as well as in their communities.

29. For every case of wine sold, the Du Toitskloof Cellar receives a Fairtrade premium, which the Co-operative Group is matching for this project, thereby doubling the money the growers receive.

30. The majority of the money generated in the first year of the project (over £64,000) went towards three new crèche facilities, which were officially opened in June 2006. These new facilities give 210 toddlers and infants between the ages of three months and five years education and development facilities prior to going to school.

31. The next stage of the project will focus on adult education, particularly HIV/Aids awareness, alcohol abuse, foetal alcohol syndrome and young motherhood.

**ENGAGING OUR COLLEAGUES**

32. As a leading UK employer we believe that we have a responsibility to provide our colleagues with access to Fairtrade products.

33. In 1997 The Co-operative Bank switched its vending machines to Fairtrade coffee (Cafédirect), and in 2001 to Fairtrade tea. It was the first company in the world to distribute Fairtrade coffee in its vending machines, making it the largest UK workplace consumer of Fairtrade products. The Co-operative Group has since added Fairtrade drinking chocolate to all of its vending machines. Every month our staff drink more than 200,000 cups of Fairtrade tea, coffee and hot chocolate.

34. In addition, Fairtrade certified chocolate bars, including Green & Blacks Maya Gold, snack bars, apple and orange juices, as well as cookies, are on sale in all Co-operative Financial Services staff restaurants.
35. A Fairtrade Costa Coffee bar was also opened in 2004 at the CIS head office in Manchester, serving Fairtrade tea, coffee and orange juice. This has now been expanded to the Co-operative Group head office in Manchester.

FUTURE FAIRTRADE DEVELOPMENT

36. In 2007 we will continue to develop our commitment to Fairtrade through the development of our products and raising awareness of Fairtrade through promotions and events. The Co-operative Group will continue to be the leading retail supporter of Fairtrade Fortnight.

February 2007

Memorandum submitted by the Co-operative Party

INTRODUCTION

The Co-operative Party is the political arm of the Co-operative Movement. As such, we promote co-operatives as the economic model that allows its stakeholders to take responsibility for their action, and benefit from them, both at home and abroad.

The role played by co-operatives in developing countries is far from being limited to fair trade products. As a matter of fact, the co-operative model is currently being used as an alternative to privatisation for delivering utilities across the globe. Two notable examples of such practice are the NRECA electricity co-operative in Bangladesh and the SAGUAPAC water co-operative of Santa Cruz, Bolivia.

The reason why we have decided to present this short submission into this Committee’s inquiry is that whilst the link between co-operatives and fair trade is rather obvious [a large majority of fair trade products are produced by co-operatives], we would like to see the current passive acknowledgement turn into an active encouragement and support for this economic model.

Within the scope of this enquiry, we have limited our short submission to answering one specific question:

Is there a role for donors in helping to develop the interests of producer communities in developing countries?

A—DEFINING THE INTERESTS OF PRODUCER COMMUNITIES

1. Maintaining community ownership of production.
2. Reducing costs through investment in capital.
3. Getting the best possible price for product—particularly keeping the maximum amount of end product value.
4. To build infrastructure that enables them to develop as a community, including schools, health centres and access to clean water and electricity.

We can certainly argue that if we look at producer interests in this way, the best way in which donors can develop the interests of producer communities in developing countries is through encouraging investment in co-operative solutions.

B—WHAT CO-OPERATIVES DO

1. Co-operatives enable small scale producers to stay on their own land, and retain ownership.
2. They provide a mechanism through which producers can come together and buy capital, thus allowing them to maximise gains from economies of scale.
3. If co-operatives gather to form a co-operative union—this allows farmers to increase the price that they receive from their goods (see the example of Oromia Co-operatives Union in part D).
4. Co-operatives provide a natural framework for community investment, given that their very existence defines the boundary of the said community.

C—CO-OPERATIVE DEVELOPMENT

Co-operatives provide a delivery vehicle that offers an alternative both to government institutions or private companies. Whilst the former have sometimes suffered from problems of efficiency, transparency and corruption; for the latter, shareholder interests come first, and profits are often made at the expense of significant social and welfare losses. This economic model also puts people, rather than business or governments, at the centre of development. By empowering individuals within their communities, it allows them to trade their way out of poverty.
In short, co-operatives can deliver economic development controlled by the very people who are to benefit, doing so in a democratic way, through the one member, one vote system. Moreover, community development is part of the core values and principles of the Co-operative Movement, including investment of profits in running water, health or education, for example.

**D—CASE STUDY: THE OROMIA CO-OPERATIVES UNION**

The Oromia Coffee Farmers Cooperative Union was established in June 1999 to bring farmers together to enable their survival under the market conditions of the time. Founder Tadesse Meskela stated its main aim as being “to bring more money into the coffee growers’ pocket . . . and improve the farmers’ lives.” Farmers within these co-operatives are not required to sell their coffee to the Cooperative Union. So the success of the Union depends on a fair price to the farmer-members for their coffee.

And the Union has certainly been a success!

The table below illustrates the growing number of co-operatives joining the union, and the households it represents.

<table>
<thead>
<tr>
<th>Year</th>
<th>Member Cooperatives</th>
<th>Farmer Members</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Male</td>
<td>Female</td>
<td></td>
</tr>
<tr>
<td>2000</td>
<td>34</td>
<td>1,161</td>
<td>22,503</td>
</tr>
<tr>
<td>2001</td>
<td>34</td>
<td>1,232</td>
<td>22,821</td>
</tr>
<tr>
<td>2002</td>
<td>34</td>
<td>1,250</td>
<td>23,043</td>
</tr>
<tr>
<td>2003</td>
<td>34</td>
<td>1,257</td>
<td>23,593</td>
</tr>
<tr>
<td>2004</td>
<td>34</td>
<td>1,257</td>
<td>23,593</td>
</tr>
<tr>
<td>2005</td>
<td>74</td>
<td>2,675</td>
<td>47,912</td>
</tr>
<tr>
<td>2006</td>
<td>101</td>
<td>3,909</td>
<td>74,795</td>
</tr>
</tbody>
</table>

*Note: The number of women listed in this table represent widowed women only. The denomination “Male” actually represents households, as we have been told by the Union representative.*

In the same period, it has seen its net surplus increase from 289,000 birr (£17,400) to 6.9 million birr (£412,400) and its working capital from an initial investment of 825,000 birr (£50,000) to 17.4 million birr (£1.05 million). This represents an overall increase in business size of over 2,100% over six years, entirely owned by its farmer members.

**What happens to the profits?**

Seventy percent of the Union’s profits from selling and exporting coffee are distributed back to the 74 co-operatives. They then distribute these dividends back to the farmer-member. The other 30% of the Union’s profits are used for expansion of capacity building assets, for reserves against poor harvest years, and for community development. Recently, the Union has even obtained special permission to bypass the auction market and sell directly to its clients, ensuring a more stable and sustainable price in the long term.

**Supporting the Community**

Another way the Union supports its farmer-members is by undertaking community improvement projects. In the past year, as its fair trade business has grown, the Union spent 2.7 million birr (£165,000) on community development projects. In practice, this has brought the construction of four new schools, with 25 new classrooms and 5,000 more children receiving an education. Three villages have received a clean water supply, ending the danger of water borne disease for approximately 3,000 people.

In addition, four new health centres have also been built, with more than 6,000 visitors every year. For those who previously lived in these areas, serious illness meant that they had to carry friends, relatives or neighbours for three to six hours just to get treatment. Now the Co-operative Union is bringing clinics to the villages. By working together, farmer-members are able to pool their resources, and their work benefit not just their own households, but entire communities.

For Tadesse Meskela, the most important aspect of the Oromia Union’s work is the impact that it has on the prices that its members receive for their crops. During the crisis in the coffee market of 2002–03, it was giving its members a price 250–300% above that of private enterprise, and now still pays around 80–100% more than such companies. What this means, in very simple terms, is that farmers can now send their children to school and buy them adequate clothing. It means that families can build better quality houses. For every additional penny received, it brings both families and communities one step closer to lifting themselves out of poverty.
The next step

The future for the Co-operative Union is to be able to control more of the supply chain, allowing the producers of the coffee to capture the bulk of its consumer price. It already is a part owner in Café Progreso, a chain with three outlets in London. But much of the supply chain still remains outside of the Union’s hands.

Asked about what donors countries such as the UK could do to support his efforts to trade his and his farmer-members ways out of poverty, Tadesse Meskela said:

“Empower the poor, help us to acquire washing stations, coffee processing plants . . . and make big corporations pay a better price for the coffee.” Tadesse told us of his hope for the development of a roasting plant in the UK owned by fair trade producers such as the Oromia Union as an example of what he hopes his next step will be. This investment in infrastructure is vital to further success and would allow them to compete with international corporations such as Starbucks.

Tadesse ended by saying that, “if you give me money to buy food, tomorrow I have to ask you again . . . Give me the investment in infrastructure, and you will never have to give us money again.”

The example offered to us by Tadesse Meskela and the Oromia Co-operative Union states better than we could the role played by co-operatives in international development, and why it is vital that they should be fully acknowledged and promoted.

Conclusion

The role that we would like donor countries to take is to actively encourage the development of co-operatives in developing countries. This support has to translate at two levels:

1. Training local farmers and producers into developing their co-operatives. This could be achieved by sending specialist consultants who could run training session on site.

2. Offering preferential tariffs [no VAT for example] to products fairly traded through co-operatives. Given that part of the profits made by co-operatives is invested in communities and in infrastructure, such preferential tariffs could actually end up saving money in aid given by DfID, and with the added value of saving administrative costs and ensuring that the aid money is going where it is needed.

February 2007

Memorandum submitted by the Ethical Trading Initiative (ETI)

1. Ethical Trade and Fair Trade

1.1 The distinction between Ethical Trade and Fair Trade and their respective roles and contributions to development are important.

1.2 Companies adopting ethical trading strategies try to ensure that national laws and International Labour Organisation (ILO) standards are respected in the production of all the products within a defined area of their supply chain. Companies implement codes of practice to articulate these standards and unlike Fair Trade, they apply to the entire supply chain of the products scoped, including sub-contracting and components. This can be vast, involving tens of thousands of products, made by thousands of suppliers in dozens of countries. Ethical Trade is particularly relevant for large multinational companies that outsource the majority of their production, and so do not have a direct contractual relationship with the workers who make their products. This is one reason why there are no consumer labels offering a guarantee to consumers that all such standards are met by all suppliers to any one brand.

1.3 Fairtrade labelling applies to products rather than companies. Products are labelled to certify compliance to standards defined by the Fair Labelling Organisation (FLO). These include measures designed to increase the benefits of trade (and reduce the risks) to a defined group of (usually primary) producers of the product. Typically, producers receive a minimum price that covers the cost of “sustainable production” and an extra premium that is invested in social or economic development projects. Historically, Fairtrade has been particularly significant for commodities such as tea, cocoa, and coffee, where serious fluctuations in world commodity prices continue to affect producer incomes and where small producers at the end of the supply chain have little power to protect themselves from risk. However there are now about 2,000 fairtrade labelled products in the UK and the product range and the profile of the producers have both changed markedly over the past five years.
2. LABOUR STANDARDS AND PUBLIC PROCUREMENT

“Do existing government guidelines on procurement of ethical and fair trade products provide an enabling environment for the development of this market and the opportunities for producers?”

2.1 Given the scale of spending on public services, public procurement could make a significant contribution to mainstreaming ethical trade principles in the UK. The UK government buys £13 billion worth of goods and services each year. For the wider public sector, this figure is £125 billion. That dwarfs the spending power of ETI’s combined corporate membership which has a turnover of about the same figure. Some individual procurement agencies have great purchasing power. For example, the NHS in England alone purchases goods and services worth some £15 billion/year and its Purchasing and Supply Agency (PASA) influences some £6.2 billion of this.

2.2 ETI encourages public procurement bodies to implement good practice in ethical trade and has engaged with public procurement agencies intensively for the past two years. London Underground became a member in December last year in order to enhance its capacity to source uniforms and work wear responsibly. It makes every sense to share lessons gained in the private sector with public sector bodies and to combine strengths in buying power for greater impact.

2.3 The UK government has made commitments to promoting the core ILO conventions; to encouraging and enhancing CSR at home and abroad; and to use public procurement to set an example for business and the public.103 However, ETI’s engagement with public procurement bodies leads us to believe that in practice very little has been done in the UK to promote labour standards in public procurement. There is a widespread perception among those responsible for public procurement that EU procurement law prevents them from doing more.

2.4 The principal government guidelines on ethical purchasing are contained in the Office of Government Commerce (OGC) note on “Social Issues In Purchasing” published in February 2006. This document purports to “show the full scope to take [social] issues into account within the framework of the Government’s procurement policy and the EU procurement rules” (1.1 on page 2).

2.5 Far from exploring the full scope for promoting ethical public procurement, these guidelines are so cautious and negative in tone as to actively discourage meaningful initiatives.

“Voluntary action” needs supporting with commercial incentives and sanctions

2.6 Generally the OGC note suggests that public bodies should work on a voluntary basis with contractors towards observance of core labour values:

— “The Government’s approach is that effective implementation of labour standards is best achieved through partnership and voluntary action of government, business and civil society. Government purchasing practice can be part of this approach by ensuring that suppliers are aware of the importance of implementing and monitoring labour standards in their supply chains and supporting them to do so . . . ” (Section 5.7 at page 24).

— “Voluntary, post-award working can also provide another opportunity for procurers to help support . . . CSR . . . a contracting authority might consider working with suppliers to help ensure that they and their supply chains are made aware of the ILO core labour standards and the social and economic benefits to business (and to society more generally) when they are properly implemented.” (Section 7.10 at page 33).

— “Promote the benefits of CSR to your existing supplier base and work on a voluntary basis with your contractors towards the take up of core labour standards as expounded by the ILO.” (Annex A, Summary of Actions for Key Social Issues, Section 2, Core Labour Standards, 7th bullet point at page 33).

2.7 It is ETI’s experience that buyers are most likely to be effective in improving their suppliers, employment practices if they offer reward for ethical behaviour and sanction those suppliers that consistently abuse workers’ fundamental rights. Examples of rewards are renewed or longer contracts, or more preferable terms. The ultimate sanction, which should only be used as a last resort, is ceasing to trade. The lack of any incentive or reward is a fundamental defect in the government’s preferred approach.

Making performance conditions subject to contract

2.8 A key issue is how far procurement agencies can go in order to make observance of labour standards a condition of contract. ETI’s experience is that public procurement agency staff do not feel enabled to do this because they believe OGC guidelines prevent them. However this is inconsistent with the way the EU Directive is applied in other member states.

2.9 The call for tender can set out the public procurement authority’s requirements for the manner in which the contract is performed. The relevant aspects of the EU Directive are:

— Article 26—“Contracting authorities may lay down special conditions relating to the performance of a contract, provided that these are compatible with Community law and are indicated in the contract notice or in the specifications. The conditions governing the performance of a contract may, in particular, concern social and environmental considerations.”

— Recital 33 of the Directive spells out—“Contract performance conditions are compatible with this Directive provided they are not directly or indirectly discriminatory and are indicated in the contract notice or in the contract documents . . . For instance, mention may be made, amongst other things, of the requirements—applicable during the performance of the contract— . . . to comply with the provisions of the basic International Labour Organisation Conventions, assuming that such provisions have not been implemented in national law . . .”

2.10 Other European countries, such as Belgium¹⁰⁴ and France,¹⁰⁵ rely on these provisions to introduce a performance condition requiring suppliers to comply with the ILO core conventions in the country of production. This requirement applies to service, works and supply contracts and extends down the supply chain to the original production.

2.11 However the OGC Social Note is less encouraging. Section 7.3 (at page 29) concludes—“When considering the inclusion of such clauses in a contract, however, care must be taken to ensure they are non-discriminatory, and that value for money is being maintained . . .” and section 7.4 (also on page 29) begins—“Contract conditions should be relevant to the subject of the contract and should not undermine the performance of the contract and achievement of value for money for the taxpayer.”

2.12 While the Social Note does not prohibit the use of contract performance conditions to require compliance with the core conventions, it falls a long way short of being either encouraging or contributing to an enabling environment. Government guidelines should be more encouraging of public procurement bodies to adopt performance standards on implementation of ethical principles in contractual agreements. More coherent guidance could be provided on how public procurement agencies might set about doing this.

More practical tools and guidance

2.13 ETI’s experience is that even when companies have the above measures in place, they and their suppliers require practical tools, training and guidance on “how to do it”. There now exists a wealth of learning in this area and the UK has a strong infrastructure for sharing good practice on ethical trade within and between industries. This could and should be exploited to provide a more enabling environment to officers responsible for procurement in the public sector.

3. ROLE OF BUSINESS IN SUPPORTING ETHICAL PRODUCTION

What is the role of supermarkets, retailers and business in supporting ethical and fair trade production?

Scope of business role and responsibilities

3.1 It is the responsibility of business to take every reasonable step to ensure that their suppliers are employing their workers in fair and decent conditions. ETI advocates the implementation of codes of labour practice as a condition of doing business. Credible implementation includes the following:

— Corporate Board level commitment and oversight.
— Communicating the code throughout the supply chain including sub-contractors.
— Making available all financial and human resources needed to implement the code.
— Providing all necessary training for suppliers and staff.
— Monitoring suppliers compliance to code conditions and seeking improvements where necessary.
— Verification of supplier compliance.
— Building partnerships with trade unions, NGOs and governments in initiatives to develop local and sustainable solutions.
— Sharing good practice with others.
— Reporting openly on progress made.
— Establishing confidential means for workers to report code violations.
— Making workers aware of code provisions and their rights.
— Integrating code provisions into core business decision-making.

¹⁰⁴ The legislation in Belgium transposing the Procurement Directive enables contracting authorities to include a performance condition that requires suppliers to comply with the core conventions of the ILO in the country of production. This condition can apply to contracts for services, works and goods and requires suppliers to take responsibility for their supply chains.

¹⁰⁵ The Finance Ministry guidance on Article 14 of Code des marchés publics indicates that contract performance conditions can require that goods are produced in circumstances which comply with internationally recognised conventions and that the tender must show how the supplier will ensure compliance.
3.2 The scale of activity by companies in implementing these commitments is large and growing. For example in 2005, ETI members’ codes covered the working conditions of three million workers, employed by over 25,000 employers. Tens of thousands of improvement actions were reported in almost 10,000 workplaces.

Role of business in relation to government and trade unions

3.3 While promotion of workers’ rights is an important corporate responsibility, companies cannot and, in ETI’s view, should not implement codes without reference to trade unions, and governments. Sustainable change actively involves governments in enforcing the law, suppliers in observing it and free trade unions in collective bargaining. Voluntary codes should be implemented in a manner that respects the role of these institutions and wherever possible, builds their capacity to be effective.

Impact of companies on promoting ethical production

3.4 The key questions are “What Impact is this activity having on improving workers lives?” and “what business roles appear to be more effective or detrimental than others?” In October last year ETI and the University of Sussex (Institute of Development Studies) published the most authoritative study yet undertaken into these questions.106

3.5 In summary, the three year study found that positive impact on workers was concentrated on improvements in workplace safety and health, reduced working hours, ensuring payment of minimum wages and statutory benefits such as insurance and pensions and less employment of children and young workers. In general such benefits fell to permanent and regular workers. Retailers and brands have made a huge contribution to raising the awareness of their suppliers of the requirements of national labour laws and what compliance with them involves.

3.6 This study is not an attempt to provide a statistically valid survey of how standards are being observed and it would be misleading to present the positive impacts in the sample studied as trends for the workers in the industries studied. Indeed, we do not believe this to be the case. Low wages, long working hours, discrimination and anti-trade union culture are characteristics of many of the markets from which UK companies source. However, the study shows that companies can have a positive impact on workers conditions if they behave in certain ways and that initiatives such as ETI can drive this change.

What company behaviours promote ethical trade?

3.7 Researchers identified that positive change was driven by such factors as:

— high levels of corporate commitment;
— frequent and consistent communications with suppliers;
— regular assessment of supplier sites backed up by comprehensive feedback and support to suppliers;
— training for workers and their managers and supervisors on workers rights; and
— multiple channels for the feedback of abuses of the code.

3.8 In contrast, downward pressure on prices and lead times given to suppliers to meet orders appears to have the opposite effect. Suppliers everywhere complain that their ability to improve working conditions is impeded by these two factors. Direct and stable relationships between buying companies and suppliers increase the chance of positive improvements. Conversely, complex chains with many linkages, in which buying companies have limited influence, present the most challenges. In these circumstances companies can still be effective if they work together in alliances with each other, government, trade unions, NGOs and suppliers.

3.9 The report contains over 100 recommendations for retailers, suppliers, governments, trade unions, NGOs and ETI. With respect to the role of business in promoting ethical trade, the study concludes that retailers and brands should:

— Make ethical trade more central to core business practice: Review core business practices (such as lead times) and take steps to ensure they do not undermine suppliers’ ability to implement the code. Provide incentives to suppliers (eg, preferential supplier status), and target consumers on the basis of companies performance on ethical trade.
— Work collaboratively to maximise potential: Collaborate on code implementation activities such as supplier audits, training and communications.
— Extend the reach of codes to all workers: Develop a strategic approach to areas where code implementation has been weak (eg, trade union rights) and ensure all their suppliers understand that codes apply to all groups of workers.

--- *Shift the focus to sourcing countries:* Allocate more resources in supplier countries—hire staff at a local level to implement programmes of awareness raising and training for workers and suppliers in collaboration with local organisations. Encourage and support suppliers to form national level initiatives working with government and trade unions to drive up standards.

*February 2007*

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**Letter submitted by Simon Forster**

**FAIR TRADE: ASPECTS OF CONCERN**

I have over 20 years experience of international development in Africa and Asia. I have been intimately involved in commercial agricultural operations in Africa that have been owned by communities and workers, or operated on their behalf. I have managed large subtropical export fruit and vegetable farms and lobbied supermarket chains throughout Europe for supply contracts long before Fair Trade became famous. I am also the author of the policy advisory paper *Investing in Africa.*

As I am sure you are deluged with submissions from the public, I will be brief:

1. In the absence of a WTO-led system of equality in global trade, Fair Trade arrangements are essential for the economic survival of commercial operations in underdeveloped countries and for the just welfare of the people involved with those enterprises.

2. However, permitting the proliferation of these systems by commercial entities whose primary objective is to maximise consumer appeal and hence the returns for their investors, does run the risk of the exploitation of vulnerable people by less-scrupulous retailers.

3. There is also a very real risk of some retailers doing more harm than good through inadequate investment in the skills and knowledge systems that will enable them to enter into mutually beneficial and lasting relationships with enterprises in underdeveloped countries. Late last year I attempted to speak to the head of the corporate social investment department of a leading UK supermarket chain using the telephone numbers provided on their website. After several transfers to the wrong people the company’s secretary admitted that no such person existed and that the information on the website was there largely for marketing purposes.

4. Certain European retailers place onerous constraints on farming operations. Some criteria, such as the chilling of produce within minutes of being picked, are understandable—though logistically quite difficult without considerable investment. However, other criteria, such as producing sweet potatoes with a completely unblemished pink skin, are largely cosmetic. Compliance with this particular criterion proved very difficult by one farming operation with which I was involved because of the inevitable consequences of produce handling. It led to considerable financial losses being incurred by the enterprise.

5. If UK retailers are serious about assisting third world producers then they must be challenged to:

   — Invest in those enterprises in order to improve skills, product quality and overall competitiveness.

   — Subject themselves to independent periodic social audits of their Fair Trade activities and allow these to be made publicly available.

6. Well-meaning retailers and NGO activists must be more diligent in their Fair Trade relationships. Africa, and I am sure the rest of the developing world, has its share of dubious opportunists. Last August I undertook a Belgium-sponsored review of a community-owned citrus farm in Africa that was experiencing major problems. The fruit produced by this farm is on sale at more than one UK supermarket chain. The main problem was that the community was deriving no benefit from the enterprise. Indeed, most benefits seemed to accrue to the predominantly white management of the farm and a couple of their black colleagues. I was at the farm for a week and on one day most of the white senior managers failed to appear for work citing meetings elsewhere. However, after some searching questions the remaining black manager confessed that the real reason for their absence was that they were expecting a visit from the Fair Trade inspectors. This is not an isolated example. I know of African politician/farmers who lobby extensively to have their farms (purchased with questionable funds) included in Fair Trade deals. Unfortunately, I regularly see Fair Trade products on supermarket shelves about which I have serious legitimacy doubts. Eventually, the media will expose these products and Fair Trade, and more importantly the people who depend entirely upon it for survival, will suffer.

*February 2007*
Memorandum submitted by the International Institute for Environment and Development (IIED)\textsuperscript{107}

Fairness in trading is at the cutting edge of efforts to secure a more just and sustainable agrifood system. In 2000, OPM and IIED released a report\textsuperscript{108} which listed three main routes by which the scale and impact of fair trade can be increased: (a) Rapid expansion of Fairtrade labelling, (b) encouraging large processors (such as Cadbury, Nestlé, Unilever) to develop Fairtrade labels on branded lines; and (c) using experience gained within fair trade more widely for producers to engage more effectively with the wider market. Our submission deals with (a) and, in our response to Q7, to (c).

Our first recommendation is to acknowledge the different roots of “fair” and “ethical” trade. “Fair trade”, with its origins in the trade justice movement, is largely treated in the marketplace as a high-end niche, in the form of an extra cost to consumers for Fairtrade labelled produce. And “ethical trade”, with more recent roots in CSR, is treated as a cost to suppliers in the form of imposed standards and codes. “Ethical” codes make little mention of producer price despite huge imbalances in market power between producers and retailers. In fact, the current trading environment is characterised by both a proliferation of standards for ethics and sustainability and the abuse of market power by powerful buyers, leading to a classic cost-price squeeze for producers.

Q2. How best can donors help to develop fair trade consumer markets in both developed and developing countries?

The growth in fair trade and its brand recognition has been due to mainstreaming and the expansion of new product lines. Donors can help this process through financing new product label development at FLO, in the form of: technical standard development inputs for new product areas within FLO standards unit; liaison officers within the FLO product business unit (critical to bringing new producers on-line); pilot certification schemes for the new product, training of FLO-CERT technical staff in new product areas.

Q3. How can aid be more effectively mobilised to help producers improve the quality of their produce in order to access fair trade markets?

Aid can be mobilised to support southern producers associations and support networks that link such associations with existing business services. Support can also be channeled to capacity building measures in developing countries and the encouragement of public-private partnerships. In addition, aid could provide farmers and workers with the financial incentives and technical assistance required to convert to full organic production.

Q4. Is there a role for donors in helping to develop the interests of producer communities in developing countries (for example, the Ethiopian coffee trademark dispute)?

Yes. There are a number of concrete examples where DFID has already supported the development of producer interests in developing countries. These include:

- Through its Business Linkages Challenge Fund (BLCF), DFID helped establish the Fair Trade horticultural company “Gambian is Good” which supplies high value hotels and restaurants with quality local produce.
- In 1999, DFID guaranteed a £400,000 loan taken on by the Day Chocolate Company to market Ghanaian smallholder cocoa. Shortly afterwards, the Fair Trade Divine brand was launched, and is currently available in the UK retail market.
- Another DFID BLCF grant helped to implement a trademark programme which recognises fair and responsible tourism practices in South Africa, benefiting local communities and giving confidence to buyers.

There is a direct role in funding FLO Producer Business Unit local liaison officers in the producer countries.

In addition to direct financial support to local producers, donor governments could also help to create enabling legislative frameworks (in developing and developed countries). For example: legislation to facilitate trademark registration, with a related appeals process, would help producers in developing countries to create market value brands that provide higher profits. Donors could also fund capacity building work to assist businesses, trade associations and other organisations to formulate strategies aimed at incorporating fair trade products into global value chains.

\textsuperscript{107} Including FIELD (the Foundation for International Environmental Law and Development).
Q5. How does the international trade system impact on ethical and fair trade production (for example, the impact of changes in the EU tariff regime for bananas on small developing country producers)?

Trade justice is an essential cornerstone of fair trade. Fairness and equity in trading requires complementary reforms of the international trading system, to ensure the end of dumping products on world markets below the cost of production, and to re-regulate commodity markets to reduce volatility and chronic oversupply. To date the Doha round of WTO negotiations has failed to reach an agreement on new trade rules that are fairer for developing countries. Although WTO rules in principle allow members to adopt or enforce measures necessary to protect human, animal or plant life or health, WTO dispute settlement panels have repeatedly found in favour of free trade and against import restrictions for environmental reasons or related to production methods. The WTO dispute settlement body has yet to consider a case involving legislative preferences for products certified as ethical or fair trade. However, based on past outcomes it is unlikely to find, for example, import restrictions on non-certified products or the preferential treatment of certified products consistent with current trade rules.

Q7. What is the role of supermarkets, retailers and businesses in supporting ethical and fair trade production?

Fairness and equity in trading relations between supermarkets and their supply chains are hot topics, both in the development debate (smallholder access to markets) and the domestic farming debate.

Fairtrade labelling alone is not a strong proxy for a retail company’s commitment to fairness and justice in trading. For most retailers it tends to be an add-on, rather than the basis for doing business (with notable exceptions, eg Co-op own-brand chocolate and coffee, Sainsbury bananas). This is underlined by the fact that many retailers have positioned Fairtrade as an up-market niche. In effect retailers have made fairness and justice in trading a consumer choice—a test of their customers’ willingness to pay for non-exploitative trading with primary producers—rather than a corporate standard and a means to transform their mainstream businesses. If fair trade does not break out of its niche position or rapidly increase the range of labelled products, there is always the risk of it being used as a fig leaf to provide cover for socially destructive relations within mainstream trading relations.

Even within the fair trade movement, questions are being asked about whether the purchase of certified fair trade goods is an effective way of achieving systemic fairness in trade. These groups are investing in other approaches such as schemes to facilitate improved access to conventional markets for marginalised producers, and lobbying on codes of practice on retailer-supplier trade relations.

In order to bring fairness and justice into mainstream trading relationships, innovative retailers can start to bridge the arbitrary and artificial gap between “fair” and “ethical” trade. In our paper for the UK Food Group Achieving fairness in trading between supermarkets and their agrifood supply chains (see www.ukfg.org.uk) we propose the development of a set of guidelines for retailers that wish to incorporate fairness and justice into their trading relations, learning from the Fairtrade experience, to expand rather than constrain opportunities for small and family scale producers. By this corporate standard (rather than a brand or mark), customers could be assured that their purchases across the board have not contributed to the exploitation of producers and misuse of market power. The potential opportunities and risks associated with introducing such guidelines are highlighted in the paper.

But the room for manoeuvre for innovative companies is severely constrained by the current structure and governance of agrifood markets, which rewards “economies of scale” while failing to provide a public policy environment which would curtail the abuse of market power.

For supermarkets to improve the equity and fairness in their trading relationships with the world’s farmers, there are a number of policy areas for both the public and private sector to ensure a supportive and coherent policy environment for companies to do the right thing, which are discussed in the UK Food Group paper.

The first step is to recognise the problem of severe imbalances of market power in agrifood, and the limits of self-regulation. There is plenty of evidence that policy makers are unable to situate the problem in a policy context, and therefore unable to regulate around criteria for what constitutes a fair deal between producers and consumers. The recent UK Food Industry Sustainability Strategy, for instance, only addresses “ethical trade”, and this is handled primarily as an issue of social rather than economic sustainability. Incredibly, there is no mention of supplier or producer welfare or problems of price in the section on “economic” sustainability. Competition policy also is in dire need of modernisation. Competition policy traditionally tends to equate social benefits with consumer benefits rather than fairness to suppliers. But in order for competition policy to also protect suppliers and primary producers in an era of extreme imbalance in market power, buyer power needs to be examined in the development of national competition policy on its own terms.
Q9. In an increasingly crowded ethical marketplace how can consumers be supported to distinguish between different fair trade brands, labels and codes?

Action 2 of the European Action Plan for Organic Food and Farming (http://ec.europa.eu/agriculture/qual/organic/plan/workdoc_en.pdf) provides for the establishment and maintenance of an Internet database listing the various national and international standards for products certified as organic (including international standards and national standards in main export markets) compared to the European Community standard. A similar database for fair trade brands, labels and codes may be a useful starting point.

February 2007

Memorandum submitted by Masterfoods UK

1. EXECUTIVE SUMMARY

1.1 Masterfoods UK is part of Mars Incorporated, and produces some of Britain's best-loved confectionery brands including Mars, Snickers and Galaxy. We are committed to producing quality branded products and contributing to a sustainable global and local environment. At Mars we view sustainability as a whole business issue and our aim is to return a fair benefit to our local and national communities, increasing their prosperity and quality of life as we benefit from partnership with them.

1.2 Cocoa is the unique ingredient of chocolate and at Mars we devote significant resources to ensuring the sustainability of the whole cocoa supply chain to the mutual benefit of all those it touches. Our Cocoa Sustainability Programme embraces a holistic, proactive set of activities designed to ensure future supplies of cocoa and a responsible approach to its production so that the community and environment in which it is grown can thrive.

1.3 Our experience of operating in the cocoa supply chain confirms to us that agricultural development, and in particular working in public-private partnerships, can make a tangible and lasting contribution to achieving the Gleneagles G8 objectives and beyond that the Millennium Development Goals. Masterfoods supports the key point made by Business Action for Africa in response to the Eliminating World Poverty White Paper: “. . . It is only private-sector led growth that can finally and forever make poverty history.”

1.4 Our privately owned company’s heritage is based on a genuine commitment to the communities that are touched by our business. Furthermore we have taken a leadership role in our industry’s efforts to ensure a sustainable future for the family farms where many of our products begin. This also includes us working closely with the Biscuit, Cake, Chocolate and Confectionery Association (BCCCA) on all aspects of cocoa, and we support their response to the Committee as part of this inquiry. Nevertheless, we would like to offer several additional comments in response to a number of your questions.

Masterfoods UK’s Response to:

2. How can aid be more effectively mobilised to help producers improve the quality of their produce in order to access fair trade markets?

2.1 In the cocoa sector we have experience of a number of development initiatives including establishing public-private partnerships to address the specific needs of farming communities, the most prominent example of which is the Sustainable Tree Crops Program (STCP). It is our experience that successful and sustainable futures are grounded in partnerships that share expertise.

2.2 One example that demonstrates the opportunity for business to support ethical trading is demonstrated by the International Cocoa Initiative (ICI), an organisation dedicated to achieving social improvements in the cocoa supply chain. The ICI illustrates how industry and NGOs can collaborate towards common development goals.

2.3 Appropriate working conditions are a prerequisite for a sustainable supply chain and—along with its industry partners, national governments of growing countries, labour experts and community based organisations—Mars is supporting the establishment of a certification process in Cote d’Ivoire and Ghana (the world’s largest cocoa growing countries) in order to ensure that cocoa is not only farmed free from the worst forms of child labour, but also that the working conditions are as sustainable as possible.

2.4 Creating an exchange of information and knowledge between global experts and experts at “ground level” is also an important development initiative. The STCP is actively facilitating knowledge transfer both at the top level of sharing scientific research amongst country experts and also through Farmer Field Schools at the practical micro farm level.
3. How does the international trade system impact on ethical and fair trade production?

3.1 A fundamental macro-economic objective must be an equitable trading system that provides access to markets whilst at the same time allowing freedom of choice, for example to use such channels as Fair Trade. Agriculture has a key role to play in creating economic growth in developing countries but will struggle to flourish in the absence of stable governments, good governance structures and transparency that must be accompanied by investment in infrastructure, including educational provision. The role for donor support in achieving agro-economic growth must not be under-estimated.

4. Do existing government guidelines on procurement of ethical and fair trade products provide an enabling environment for the development of this market and the opportunities for producers?

4.1 Support for Fair Trade by UK government departments is an example of policy into action. However it is important to note that there are also other ethical trading models. Examples of these, in which we are involved as part of our cocoa sourcing, are explored in more detail below. We would be pleased to see the UK Government provide even more support for these models of ethical trading and development, which are best viewed as complementary to Fair Trade initiatives rather than in competition with them.

4.2 Labour Certification is an important ethical trading model. It is a system to monitor, track and drive labour practice in the cocoa sector that is under development by the global chocolate and cocoa industry in partnership with West African governments, labour specialists and other interested NGOs/CBOs.

4.3 The STCP, a public-private partnership between the cocoa and chocolate industry and government donors has successfully supported farmers’ organisations and co-operatives leading to improvements in the supply chain. Many farmers, when better organised, are able to achieve better prices for their cocoa. For example, in Cameroon participating farm families saw their incomes increase by up to 55% in 2004, and in Cote d’Ivoire where there is a different farm levy structure average cocoa farm income rose by 24%.

4.4 A further initiative under the STCP seeks to improve farming techniques through Farmer Field Schools. Losses to pests and diseases averaging 30% annually pose an ever-present threat for cocoa farmers. At Farmer Field Schools smallholders learn skills to combat this threat leading to improved yields and hence income gains.

4.5 For any agricultural supply chain to be sustainable there must also be investment in local infrastructures, in particular investment in education. We recognise this to be the case in the cocoa sector and have sought public-private partnerships to deliver appropriate training. For example, Mars is working in partnership with Winrock International and others to deliver vocational skills to school children in Cote d’Ivoire providing today’s students with the opportunity to become better farmers of tomorrow.

February 2007

Memorandum submitted by Progressio on behalf of our Honduran partner LIDERS

Progressio’s Work

Progressio (formerly CIIR—Catholic Institute for International Relations) is an international development charity working for justice and the eradication of poverty. Our approach combines advocacy work to secure equitable policies with the strengthening of community-based organisations that represent the interests of the poor and work to improve their quality of life. Through our country programmes we place experienced professionals to share their skills with partners in 11 countries. Our work focuses on three main themes: Civil Society Participation, HIV and AIDS, and Sustainable Environment.

Since 2001 Progressio has been engaged in a Partnership Programme Agreement (PPA) with DFID. DFID’s PPA has been key in supporting our work on Civil Society Participation, HIV and AIDS, and Sustainable Environment.

Although Progressio does not work on fair trade issues, we welcome this opportunity to enable our Honduran partner LIDERS to participate in the IDC’s inquiry into fair trade and development. Progressio supports LIDERS with the implementation of agroecological practices.

109 Registered in the UK, charity no 294329, company no 2002500.
LIDERS SUBMISSION

1. What has been the impact of donor funding for fair trade?

Donor funding has been key in the roll out of fair trade in developing countries. This has been achieved by providing training on the criteria and requirements of this type of market; the trends of the international market and the processes of certification. Donor funding has also made possible the creation of commercial links with organisations, businesses and buyers in countries from the global North and the participation in important European organic trade fairs, thus enabling the country, the producers and their products to gain recognition in some countries. As small producers we are participating in fair trade with our principal crop, namely coffee, and thanks to international co-operation we are already reaping the benefits (capacity building, price increase, social premium, contact with networks). There is still much to do since the international market is ever changing and its norms and its quality control criteria must be fully complied with. New producers are becoming involved in the initiative of LIDERS and its cooperatives in order to expand the social and productivity base. The model has made it possible for organic production to develop in parallel. Currently there is a growing interest in agroecological products, such as organic coffee, and thus every LIDERS’ co-operative has a double seal: fair trade and organic coffee.

2. How best can donors help to develop fair trade consumer markets in both developed and developing countries?

Lobbying national parliament and international fora for better trade conditions and for the opening of markets in the global North to products coming from developing countries. They can also play an important role in supporting awareness raising campaigns targeting the European public in order to encourage the consumption of fair trade products. In developing countries donors can help strengthen projects or networks that are committed to fair trade (coffee, honey, handicrafts, fruits, etc) so that these type of initiatives can grow at a local, national and regional level.

3. How can aid be more effectively mobilised to help producers improve the quality of their produce in order to access fair trade markets?

Being able to compete will depend on producers being able to guarantee volume, quality and regularity of the supply. LIDERS believes that cooperatives, groups or networks must be supported through business management training to enable them to better organise and improve the quality of the whole productive process, including the marketing of their products. It is vital that all stakeholders involved adopt a solid business approach, regardless of their role, in order to succeed. There needs to be teams to monitor the quality of each activity, such as planning/administration/business management, productive processes and marketing. It is important that production is planned; that infrastructure (drying rooms, storerooms, processing plants, collection centres) is improved; and that they strictly comply with the relevant certification criteria (fair trade, organic, etc). They should have their own quality norms and be responsible for complying with these norms; for instance in coffee production they could have their own samplers and small laboratories to this end.

4. Is there a role for donors in helping to develop the interests of producer communities in developing countries (for example, the Ethiopian coffee trademark dispute)?

By all means. This can be done through international advocacy campaigns on the issue of origin denomination, which is key to the rights of a region or country. There are examples of countries and products that already have it such as Jamaica and their Blue Mountain coffee. In the case of Honduras, LIDERS has some influence in the region of La Paz, specifically in Marcala where we were able to use the circumstances created by the free trade agreement to reform the legislation on brands and patents because it did not include any aspect of origin denomination. We lobbied congress and succeeded in getting the law reformed. As a result, Marcala coffee is patented and this brand corresponds exclusively to the Montecillos Mountains. A project is now being promoted to create an umbrella organisation that will launch this brand. Of course there is still much to do and when the time comes the support of international co-operation will be key in determining the success of this project.

5. How does the international trade system impact on ethical and fair trade production (for example, the impact of changes in the EU tariff regime for bananas on small developing countries)?

We cannot answer this question because we do not have updated information. However, we would like to point out that as part of fair trade, we can see there are important similarities with other initiatives carried out by some progressive private sectors that are getting involved in socially and environmentally responsible business (World Business Council for Sustainable Development).
6. Do existing government guidelines on procurement of ethical and fair trade products provide an enabling environment for the development of this market and the opportunities for producers?

In Honduras SENASA plays merely a governing role ensuring the rules and laws on organic agriculture are complied with. There are no incentives for ecological production or for incorporating small producers into this market. If a fair trade market has been developed it has been thanks to the support of international donors.

7. What is the role of supermarkets, retailers and businesses in supporting ethical and fair trade production?

Supermarkets can give space to these products as part of their strategies of diversification. They can include these products in their publicity campaigns; they could hold tastings of these products so that the consumer gets to know them. It is important to take advantage of the growing awareness amongst businesses, distributors and the public, of the marketing and consumption of fair trade products.

8. In an increasingly crowded ethical marketplace how can consumers be supported to distinguish between different fair trade brands, labels and codes?

This could be done through awareness raising campaigns for consumers in radio, television, web pages, printed media, fairs, etc, with an emphasis on highlighting the benefits of buying fair trade products: origin, quality, agroecological products, beneficial for producers in developing countries, good for the consumers’ health, etc. This will enable them to distinguish one conventional product from one fair trade product, so that whenever possible the consumer prioritises products with the fair trade label, with origin denomination and own brands.

February 2007

Memorandum submitted by the Scottish Catholic International Aid Fund

Do existing government guidelines on procurement of ethical and fair trade products provide an enabling environment for the development of this market and the opportunities for producers?

The UK Government’s Sustainable Development Strategy, published in 2005, sets out HMG’s desire to be amongst the leaders in the EU on sustainable procurement by 2009. As many contracting authorities within Europe—including the European Commission itself—have already procured fair trade goods, it is surprising that the existing Office of Government Commerce (OGC) guidance on procurement110 does not do nearly enough to promote the development of the fair trade market in the UK, due to its unnecessarily restrictive interpretation of EU legislation.111

It is true that, for the purposes of EU procurement law, fair trade needs to be defined not just as products which have received FLO/Fairtrade Foundation certification but, more broadly, as products which are made according to specified fair trade principles (for eg a fair producer price, a long-term contract etc). These can include, but cannot be restricted to, products with the FLO/Fairtrade Foundation label. Companies do not have to have official fair trade certification but must prove, by “any form of evidence”, that they are abiding by fair trade principles.

However, procurement of fair trade goods as thus defined is perfectly compatible with EU legislation and if the government was to wholeheartedly support fair trade procurement, this would have considerable implications for the growth of the fair trade market in the UK.

However, in order for this to happen, the Office of Government Commerce critically needs to reassess its current guidance on this issue. In its current form, it does not so much enable fair trade procurement as constrain it, as illustrated by the following examples:

— No-where does the guidance mention that several authorities—ranging from local authorities in Scotland (eg Aberdeen) and local authorities in Italy, France and Spain to the Austrian government in its Presidency of the European Union and the European Commission itself—have successfully procured fair trade products.

— Neither does it emphasise that the whole purpose of EU procurement legislation is to ensure that “contracting authorities shall treat economic operators equally and non-discriminatorily and shall act in a transparent way”. In other words, EU legislation is not concerned with what is being

110 Office of Government Commerce Guidance on Fair and Ethical Trading
procured (be it fair trade or otherwise) but rather how it is being procured. As such, although it would be possible to procure fair trade goods in a manner incompatible with EU procurement legislation, there is no inherent reason why the two should come into conflict.112

This has a significant knock-on effect as it means that contracting authorities who might wish to procure fair trade are not receiving the information that they need to enable them to do so as effectively as possible.

— For example, if authorities wish to buy fair trade, they need to mainstream fair trade procurement from the very beginning of this process. This can be quite easily done by ensuring that there is an explicit reference to fair trade in the title (subject matter) of the contract, and this then makes provision of fair trade products (which need to be defined later on in the contract) mandatory.

— However, the OGC Guidance implies that provision of fair trade goods cannot be made mandatory and that “a bid cannot be rejected or considered non-compliant simply because it does not include any desired fair trade options”. In fact, as long as fair trade is mentioned in the subject matter and is defined later on, it is necessary by definition to reject a bid not offering fair trade products!

These are just a few of several examples illustrating how current guidance does little to enable fair trade procurement. (For other examples, and more details on the examples given, please consult the accompanying full-length document on public procurement.)113

It is crucial that the government provides a strong sense of direction on this issue, indeed, the government’s “Sustainable Development Taskforce” has recommended that the OGC needs to “lead by example,” by providing a “clear commitment from the very top of government” downwards.

SCIAF thus recommends that the OGC:

— Re-issue guidance clarifying that the scope for fair trade procurement under EU law is wider than previously advised.

— Make clear the different options that are available to authorities, including advice on how to mainstream fair trade goods as effectively as possible.

— Encourage and support authorities in their efforts to apply fair trade principles, including holding workshops/training if appropriate.

These actions, if undertaken, will bring several direct and indirect benefits to communities in the UK and in developing countries. SCIAF has calculated that if the Scottish Executive was to spend just 0.5% of its procurement budget according to fair trade principles, this would double the fair trade market in Scotland. And if converting just a small part of Scotland’s consolidated procurement spend of £8 billion could produce such a large impact, imagine the effect if the UK committed to spend a significant proportion of its £150 billion budget114 according to fair trade principles.

The direct benefits that such large scale, guaranteed procurement could have on poor communities overseas would be considerable and it could also have enormous “spin-off” effects when it comes to persuading other contracting authorities both within in the UK and in Europe more broadly to procure fair trade goods.

The OGC should thus implement these recommendations at the earliest available opportunity in order to ensure that the government is able to meet its target of becoming a European leader in sustainable procurement.

February 2007

Memorandum submitted by the Shared Interest Society Ltd.

Shared Interest is the world’s leading fair trade finance organisation. For our borrower customers, both producer groups and buyers all over the world, we provide access to fair finance to develop fair trade. For the Society’s 8,500 members who invest more than £20 million with us, it is a chance to give some of the poorest communities in the world the financial backing they need to join the fair trade market place and trade their way out of poverty. For more information see www.shared-interest.com

112 In fact, the Directive is quite clear about this and states that there are indeed “possibilities for the contracting authorities to meet the needs of the public concerned, including in the environmental and/or social area” and that “nothing in this Directive should prevent the imposition of enforcement measures necessary to protect public morality . . . human or animal life . . . in particular with a view to sustainable development provided that these measures are in conformity with the Treaty” (emphasis added).


EXECUTIVE SUMMARY

— Fair trade is growing at a fast rate and has proved itself to be hugely successful to date at alleviating poverty through trade.
— So much more could be done and must be done to increase the impact of fair trade.
— Donor funding channelled primarily into the developing world could do much to build capacity and improve the livelihoods of millions of people.
— Government and EU legislation needs to support the fair trade movement in its work by enabling successful trade between the developed and developing world but also between developing world countries who seek to develop a south—south market.

1. What has been the impact of donor funding for fair trade?

1.1 Historically there has been good donor support to one off projects so for example, within the UK a number of leading Fair Trade Organisations have secured project funding to develop their fair trade work.

1.2 The Fairtrade Foundation in the UK has probably been the most successful to date of sourcing funding from both UK and EU Governments as well as Comic Relief and other trusts and foundations. Most significantly this funding has been used to develop the Fairtrade market both through raising consumer awareness (50% of the public now recognise the Fairtrade mark), increasing the numbers of products now available in the UK market (currently more than 1,500 and continuing to grow at approx. 40% year on year) and engaging the interest of many licensees, now more than 200 in the UK and the most notable of these are the big supermarkets who have contributed significantly to the £200 million annual sales of Fairtrade products.

1.3 Another success story is that of the Divine Chocolate Limited (formerly known as the Day Chocolate Company) who used Comic Relief funding to establish themselves:

The Day Chocolate Company was originally set up by Kuapa Kokoo, Twin Trading and The Body Shop in 1998, with support from Comic Relief and Christian Aid, to give small scale farmers in Ghana access to the lucrative chocolate industry. At that point Kuapa Kokoo owned 33%, Twin owned 52% and The Body Shop owned 14% of the shares. In July 2006 The Body Shop announced it was donating its shares in the Company to Kuapa Kokoo in recognition that the enterprise and pioneering business model they had helped to finance was now successful, dynamic and turning over £9 million (2005–06). At the same time Dutch microfinance specialist Oikocredit, bought shares in the Company. The new structure now sees Kuapa Kokoo with 45% of the shares, Twin with 42% and Oikocredit with 12%. www.divinechocolate.com

1.4 But so much more could be done and needs to be done and that work needs to be focused on building capacity in the developing world. If more organisations were able to access donor funding then the impact of fair trade would grow exponentially. Shared Interest Foundation, the sister charity to Shared Interest Society, is currently largely funded by donations from the Society’s members and by sponsored activities. However it is planned that grants will become a key funding stream over the coming years. Such donor funding would do much to support the Foundation’s focus on providing education and training, particularly in business and financial management. The work already carried out to date has proved successful at developing capacity within producer organisations and assisting them in improving their business performance.

Mango True Mirage, Wetta, Kenya

Mango True Mirage is a private limited company established in 1998 by skilled craftsmen and women from economically marginalised groups in Kenya.

Its mission is to work with marginalised groups by marketing their products in order to alleviate poverty and improve their lives and to educate their members that alternative trade will make them economically independent.

Working with over 2,000 producers, Mango True Mirage makes, markets and sells a number of handicraft products such as soapstone and wood carvings and bags.

With a small retail outlet and office in Machakos, Mango has a wide range of both national and international customers.

Through the Foundation’s training in financial management and business skills, Mango True Mirage has been able to strengthen its business and implement a number of significant changes to help build a sustainable business. This will directly benefit all its 2,000 producers and their families and communities.

“It’s like finding hidden gems. I never knew the resources I had and how much untapped knowledge there was among my staff.”

Beth Wambua, General Manager, Mango True Mirage
2. How best can donors help to develop fair trade consumer markets in both developed and developing countries?

2.1 Raising awareness with consumers is key to it all. By spreading the word of how fair trade really can make a difference, more people will chose to purchase fair trade products on a regular basis and as this increases demand for more fair trade products, more producers will be able to trade their way out of poverty by having a market for their goods.

2.2 There are many ways to raise awareness. At a local level, initiatives such as the Fairtrade Foundations Fairtrade Towns campaign has proved highly successful at spreading the word among members of the UK population and the Fairtrade Foundation’s counter parts in Europe have also expressed an interest in this type of campaign and are looking to roll this out themselves. The Fair Trade Scotland and Fair Trade Wales campaigns are now mobilising large numbers of fair trade consumers and support for initiatives such as these will facilitate achievement of the Fair Trade Nation criteria and hence increased awareness and sales.

2.3 Networks such as the British Association of Fair Trade Shops (www.bafts.org.uk) also do much to raise consumer awareness at the shop level. They are a network of more than 100 retail outlets dedicated to selling fair trade products. They are the British arm of a wider network within Europe called the Network of European World Shops (www.worldshops.org).

2.4 Shared Interest itself runs an Ambassador scheme which promotes awareness of fair trade and the work of Shared Interest. Its Ambassadors take part in a wide range of activities such as generating local media coverage, speaking to groups, dispensing leaflets and staffing exhibition stalls.

2.5 All of these activities result in a heightened awareness on the part of the consumer. But it need not stop there, raising awareness with businesses as to what they could do to support fair trade would bring huge benefits too.

2.6 Capacity building—As noted earlier, building capacity in the developing world is the real way forward. Funding support needs to be in the form of long term relationships with producer communities. It should not result in an over reliance on grant funding as fair trade is always about creating independent and sustainable businesses but for so many of the producer communities that Shared Interest works with and knows about, some appropriately focused funding would make a huge difference.

2.7 Often when out visiting producer communities, Shared Interest is aware of groups that need relatively small sums of funding in order to make the next step change in their work. This could be in the form of grants to cover for example the cost of becoming Fairtrade certified which then opens up market opportunities. Or it could be to cover the cost of purchasing one key piece of machinery which would improve the production process significantly.

2.8 Shared Interest does provide an increasing number of term loans to support the development of many producer groups’ businesses. Whilst Shared Interest does lend to some of the riskiest groups in difficult parts of the world, one of the constraints to expanding this type of lending is the level of risk involved. If there was access to a loan guarantee fund that would provide security for high risk lending then Shared Interest would be able to support more of the most disadvantaged producer groups.

In 2006 Shared Interest provided a loan to ELOC farms in Ghana to purchase a new tractor. ELOC is a family owned farm that operates four farm sites involving some 80 producers of pineapples sold almost entirely to the European Fairtrade market.

The new tractor is being used to move pineapples from the field to the packing area—often the roads are impassable for other vehicles. The tractor will also help the farms move to full organic production (currently 60% of the produce is organic). The tractor will be used to spray ethylene gas which increases the flowering rate of pineapples by up to 80% without contravening the organic certification.

“Our needs during the past months were huge, but the support we had from Shared Interest Shared Interest, though small, has impacted greatly. We took delivery of the tractor barely two weeks ago and the staff motivation is very high. . . . it has been raining recently and all the farm roads are in a deplorable condition and it is only the tractor that can ply the roads.” James Cole, Managing Director ELOC Farms

This is an example of producer group that is able to manage the repayments on a five year loan. For some this is not viable but grant funding could reap rewards such as those detailed above.

2.9 Sadly, there are case studies in the field where funding has been made available over a short time span, the producer community has made an asset purchase for example a piece of machinery, to secure the funding but then due to a poor infrastructure (for example lack of electricity connections) the machinery is not able to be used and then sits there as a wasted investment. This is where donors need to know and understand the producer groups they are assisting and engage the help of fair trade networks such as the International Fair Trade Association (www.ifat.org) and Fairtrade Labelling Organisations International (www.fairtrade.net) who are both well placed to identify communities needing assistance. The International Fair Trade Association (IFAT) is made up of more than 200 member organisations from around the globe. Its work is centred on market development, advocacy and monitoring. It has sub networks in Africa, Asia and Latin America who develop the work of their individual regions. Fairtrade Labelling Organisations...
International (FLO) is an association of twenty labelling initiatives that promote and market the Fairtrade certification mark in their country. The UK arm is the Fairtrade Foundation. FLO regularly visits and inspects more than 500 producer organisations in more than 50 countries in Africa, Asia and Latin America.

2.10 For many producer communities they don’t only wish to trade with the developed world but also want to seek opportunities with others in the developing world, in what has been termed south-south trade. COFTA the African arm of IFAT is developing a Southern fair trade shop as a way of promoting this area of trading which of course gives their members additional market. This is another way of empowering producer communities to gain the benefits of a wider fair trade market.

2.11 Building capacity also comes in the form of sharing knowledge. For many producer communities they are isolated from the wider world and learning about how others have developed their businesses also gives them the opportunity to grow and develop their work. Again the networks of IFAT and FLO are already established to support this sharing of knowledge and funding channelled into strengthening these networks could do much for the groups in the developing world.

2.12 Product development is of course key to the producers securing a market. By empowering the producers with market knowledge, they are able to develop and diversify their product range to satisfy the ultimate consumer. They need support therefore to understand the wider market but also support at a local level to source the appropriate raw materials, or access the right machinery or develop the right quality control in order to get the product right for the market.

3. How can aid be more effectively mobilised to help producers improve the quality of their produce in order to access fair trade markets?

3.1 There are a number of ways to help producers improve the quality of their produce. Firstly they need to have market knowledge. They need to understand what the market wants and then to understand how to develop their product to satisfy that market. The market of course regularly changes its demands so there needs to be a regular stream of market knowledge for communities to work with.

3.2 Then having established the markets requirements producer communities need to develop the skills to produce the product. They need to ensure quality standards are in place and that they are consistently producing a high quality product. Most of all they need excellent business and administration skills in order to be able to run a professional and self sufficient business if they are to be successful for the long term.

3.3 All of this requires training—training to understand how they need to develop their business to provide the quality product required. This could be financial or business training or it could be quality control training or it could be training very specifically focused on the product—for example appropriate drying techniques for dried organic fruit.

3.4 This needs huge investment on the part of the producer community before they are even able to access the market and this is where aid can bring significant benefits.

Much in Little a producer group in Philippines, produces baskets and carvings. They received a loan from Shared Interest to replace old office equipment, including a computer, copying machine, binding machine and a digital camera to take quality merchandise pictures. The equipment will also be used for training seminars for producer groups which will include the design and testing of new products. Further training in technical and managerial skills will also be given. All of this equipment purchase and training will inevitably result in increased productivity and quality for their producer groups as well as improved communication with both foreign and local buyers.

Again this is an example of a producer group able to develop its business sustainably by managing this term loan. For others aid would bring the same benefits at a lower cost.

4. Is there a role for donors in helping to develop the interests of producer communities in developing countries (for example the Ethiopian coffee trade mark dispute?)

4.1 Producer communities often require assistance in engaging effectively with their own Governments and with others in their supply chain. Donors can play a role by supporting this advocacy work. Work is already being done in this respect by the networks of IFAT and FLO but funding support in this area would be very useful as often advocacy comes second to market development. Empowerment in this area is so important as too often the producer communities are disadvantaged when trading with the transnational companies.

5. How does the international trade system impact on ethical and fair trade production (for example, the impact of changes in the EU tariff regime for bananas on small developing country producers)?

5.1 Fair trade has proved to be an extremely successful model of how people-centred development can effectively reduce poverty and improve livelihoods. But if the trade system is to benefit all on a long-term basis, governments have to manage trade effectively, taking into account its social and environmental impacts.
5.2 The last round of WTO negotiations, the so-called Doha Development Round, failed to deliver on promises to reduce tariff and non-tariff barriers, or to reduce subsidies to developed country farmers. Developing countries need special and differential treatment to allow them the space and flexibility to develop appropriate trade and development policies and this has yet to be provided for. Economic Partnership Agreements (EPAs), as currently being negotiated between the EU and 77 ACP (African, Caribbean and Pacific) countries, threaten this space and flexibility and risk the livelihoods of many millions of producers in poor countries.

5.3 Shared Interest and others in the Trade Justice Movement believe that the government must do more, at the EU and global level, to create the macro-economic environment necessary to enable producers in developing countries to have genuine market access. That means that tariff and non-tariff barriers to EU markets are removed, that developed countries deliver on their commitment to eliminate export subsidies and ensure that that global trade policies and practices do not undercut internationally agreed social and environmental standards, in particular core labour standards and to ensure that the principle of special and differential treatment is upheld in trade policy to allow developing countries to protect their own markets.

6. Do existing government guidelines on procurement of ethical and fair trade products provide an enabling environment for the development of this market and the opportunities for producers?

6.1 The supply of food and catering services in England accounts for more than £1.8 billion. The existing guidelines are designed to help public authorities incorporate fair trade principles into their sourcing whilst remaining within EC public procurement rules. However according to research undertaken by the Fairtrade Foundation some local authorities have indicated they are frustrated by both the EC procurement rules and the Office of Government Commerce (OGC) interpretation of them, as they relate to the procurement of Fairtrade. There still appears, at European level, too much legal uncertainty about integrating fair trade principles into procurement and this is undermining efforts to promote it.

6.2 The problem seems to be that the guidelines take a very technical approach to quality that does not appear to include social and environmental production methods in the same way that technical quality issues for example health and safety are included. This has been legally interpreted by some as a barrier to the procurement of ethical and fair trade products.

6.3 The issue of public procurement guidelines was raised again at the recent Fair Trade Scotland workshop in Perth as being a critical enabler to increasing the fair trade market throughout the UK.

7. What is the role of supermarkets, retailers and businesses in supporting ethical and fair trade production?

7.1 Supermarkets have an enormous role to play in supporting fair trade production. In 2005 labelled Fairtrade product sales topped £200 million growing from £100 million just three years prior. This statistic alone demonstrates the rising level of public consciousness in the need for trade to be fair and sustainable and of a desire by consumers to make a difference through their shopping choices. The single largest contributing factor to this growth is the recognition given by supermarkets to Fairtrade goods and the increasing shelf space they are being given.

7.2 In December 2006 Sainsbury’s announced that it will switch all its banana supplies to Fairtrade certified. This is the biggest single commitment to Fairtrade made by any one company globally to date. Sainsbury’s sells 2,000 tonnes of bananas (or about 10 million individual bananas) every week. This move will more than double the volume of Fairtrade bananas bought by Britain’s increasingly fair trade-minded shoppers and extend the unique benefits of the Fairtrade guarantee to thousands more farmers and workers in Central & South America and the Caribbean. Bearing in mind it was only seven years ago that the first Fairtrade banana became available in the UK, it shows the power of the supermarkets. Sainsbury’s in making this move has also strengthened its commitment to developing a long term relationship with the banana producers in the Windward Islands and this is where the real benefit lies. The supermarkets can play an enormous role in increasing the volume and shelf space to fair trade goods but where they add even more value is in supporting producers in their production. The Sainsbury’s announcement, together with expected growth elsewhere in the UK market, means that the Windward Islands could be selling all of their bananas under Fairtrade terms by the end of 2007. Smallholder producers in the Dominican Republic will also be selling more of their bananas under Fairtrade terms and new farming groups there and in Colombia will be able to sell their bananas for the first time to the UK Fairtrade market.

7.3 It is to be hoped that other supermarkets will follow the lead taken by Sainsbury’s and increase their support to fair trade. A vision for the future would be to see supermarkets in the developing world taking on the same volumes of sales of Fairtrade products.

7.4 Of course, the pioneers in Fairtrade “category shifts” were the Co-op. They have been offering Fairtrade own brand coffee and chocolate for more than three years and have consistently campaigned for Fairtrade in all of their marketing materials. More recently, Marks and Spencer’s in January 2007 announced that it will be switching key clothing ranges to Fairtrade as part of its sustainability programme. This means that more than 20 million cotton garments available at their stores will be Fairtrade certified. This is due no doubt as a result of the overwhelmingly positive response from customers to their 100% switch to Fairtrade coffee and tea in 2006.
7.5 These are the success stories and, with more commitments on the parts of both supermarkets and all other retailers, lots more could be done.

7.6 Businesses can play a huge part as well. At a simple level providing fair trade refreshments for staff but on a wider procurement basis many items could be fair trade sourced. The Fairtrade Foundation have been running a “switch your workplace” campaign to encourage businesses to provide Fairtrade goods, something which is being supported by Trade Unions. The Government can play a key role by putting greater requirements on businesses to source products ethically.

8. In an increasingly crowded ethical marketplace how can consumers be supported to distinguish between fair trade brands, labels and codes?

8.1 Of primary importance is clarity to the consumer. For many there is a bewildering range of products available claiming to be fair trade and it is important that simple, clear information is available to the consumer to ensure they are able to make an informed choice. For those making false claims it is similarly important that they are exposed.

February 2007

Memorandum submitted by The Sustainable Enterprise Research Group (SERG) at Liverpool John Moores University (Faculty of Business and Law)

WHAT HAS BEEN THE IMPACT OF DONOR FUNDING FOR FAIR TRADE?

THE IMPACT OF THE DIVINE CHOCOLATE COMPANY (FORMERLY THE DAY CHOCOLATE COMPANY) ON THE UK CONFECTIONERY INDUSTRY

The Sustainable Enterprise Research Group (SERG) at Liverpool John Moores University (Faculty of Business and Law) would like to offer the following comments on the question, posed by the committee:

1.1 What has been the impact of donor funding for Fairtrade?

1.1.1 In 2000 DFID guaranteed a bank loan for £400,000 to The Day Chocolate Company (now Divine Chocolate Ltd) as part of its poverty alleviation programme in Ghana. This was the first time this financial instrument has been used. It was a good example of joined up Government where DFID worked with the DTI small business unit to assess the risk and then signed off the Guarantee through the Ghana desk who then monitored it though an Independent Director on the Board. An impact assessment was also commissioned. (See L Ronchi: Monitoring Impact of Fairtrade Initiatives, Twin, and November 2002). This is the first report. The impact assessment process is ongoing, carried out by the Sustainable Enterprise Research group (SERG) at Liverpool John Moores University (Faculty of Business and Law). Also, further evidence can be seen in “New Thinking in International Trade: A Case Study of The Day Chocolate Company”, (Tranchell and Doherty, Journal of Sustainable Development, Issue 13, 2003 and Doherty, B. and Meehan, J (2006) “Market entry based on social resources: The Case of Day Chocolate Company in the UK confectionery sector”, Journal of Strategic marketing, Volume 14, Issue 4.

1.1.2 The Sustainable Enterprise Research group (SERG) at Liverpool John Moores University (Faculty of Business and Law) have been commissioned by both the Department for International Development and Twin Trading to carry out a Monitoring and Evaluation Study to measure the impact of Divine Chocolate Ltd (formerly The Day Chocolate Company) on the UK Confectionery Industry. The study will measure impact over a three-year period (2005–08). This summary contribution here uses extracts from the first iteration of this M&E study. This contribution should also be cross referenced to the report submitted by Divine Chocolate Ltd.

1.1.3 This M & E study involves a range of data collection methods involving a significant number of semi-structured interviews with key stakeholders in the UK confectionery industry including supermarket buyers, supermarket ethical trading managers, key informants in other channels of distribution such as wholesalers, independents, whole food network, Coffee shop chains and alternative channels such as Oxfam shops etc. In addition key media experts, senior management representatives from Divine Chocolate's competitors, The BCCCA (Biscuit Cake Chocolate & Confectionery Association) and key opinion formers in the Fairtrade movement. A large sample of key informants were chosen in order to fully identify the key avenues of impact. All interviews have been recorded and transcribed to print. Additional fieldwork involved sourcing and analysing stakeholder policies and documents. From content analysis of this data a number of key themes are emerging which will be further tested in the second iteration of this study to take place from April 2007.
1.1.4 It is important to note the strategic objectives of Divine Chocolate (formerly The Day Chocolate Company):

— To take a quality and affordable range of fair trade chocolate bars into the mainstream chocolate market.
— To raise awareness of fair trade issues among UK retailers and consumers of all age groups.
— To be highly visible and vocal in the chocolate sector and thereby act as a catalyst for change.
— To be the leading Fairtrade chocolate company in the UK.
— To pay a fair trade price for all cocoa used in the products.

1.1.5 This summary report will focus on the first three key objectives above. It is clear from market statistics that Divine Chocolate is the leading UK Fairtrade Chocolate Company and only uses Fairtrade cocoa. This contribution uses extracts from the full study.

2. Key Findings

Findings are grouped under the strategic objectives identified above.

2.1 To take a quality and affordable range of fair trade chocolate bars into the mainstream chocolate market

2.1.1 90% of all key informants interviewed identified the quality of Divine Chocolate’s products as a key factor in the companies’ success in the mainstream. Also 80% identified pricing as appropriate. One leading supermarket retailer specifically mentioned the impressive quality of Divine Dark (70% cocoa content), “Divine Dark is one of our strongest performing plain chocolate products, the recipe is excellent”. Both Divine Chocolate’s own label customers (Starbucks UK and The Co-operative Retail group) identified both an increase in sales performance and improved feedback from consumers on the taste of their Fairtrade Chocolate ranges. Two major supermarket retailers commented on the good performance across all age groups including young people and older consumers.

2.2 To raise awareness of fair trade issues among UK retailers and consumers of all age groups

2.2.1 Divine Chocolate is regarded by 90% of key informants as very successful at raising the awareness of Fairtrade with UK retailers. Trading Director at one key multiple retailer commented, “Divine Chocolate has really proved some experts wrong, they have managed to develop a high quality range of Fairtrade chocolate products and gain impressive distribution, they have used their links back to producers to demonstrate to us all the importance of people and relationships in supply chains. Remember chocolate is a highly competitive market and is very difficult for any new product to succeed”.

2.2.2 It is important to note that 75% of retailers identified the credibility of Divine Chocolate’s links back to producers as a key reason for the successful mainstreaming of Divine’s products. This is demonstrated by both Divine’s own label customers; The Co-operative Retail Group and Starbucks Coffee Company using stories of Kuapa Kokoo Co-operative farmers on their chocolate bar wrappers. Interestingly both the above companies identified that Divine Chocolate had proven despite being in a highly competitive market the viability of their unique business model which challenges the conventions of International trade. The Co-operative Retail Group in 2002 (3,000 shops in the UK) converted all its own labelled chocolate to Fairtrade sourced from Divine Chocolate. This move by the Co-op led to a documentary screened in November 2002 on BBC News 24 about Fairtrade Chocolate, the CRG produced a campaign document in 2002 called “The Chocolate Report” which discusses in depth the inequalities in the world trading system and how both FT consumption and lobbying the large multinationals to convert to FT can make a difference. The Chocolate report was distributed to consumers, Co-op Membership, food industry experts and academics. From this M &E study two other UK retailers identified the position taken by the Co-op has influential in their own decisions to stock Fairtrade products. It is also worth noting here that with a number of major retailers Divine Chocolate has been involved in staff training with both head office and store staff.

2.2.3 Divine Chocolate’s success in mainstreaming has also resulted in greater consumer awareness of Fairtrade. Bruce Crowther commented, “Being able to tell young people and adults that Divine and Dubble Fairtrade Chocolate were available in the local supermarkets was a huge advantage in ensuring our Fairtrade campaign was practical and credible”. There is also evidence from retailers that Divine’s work in raising the awareness of Fairtrade has resulted in a very loyal customer base. Head Chocolate Buyer at a leading UK retailer explained “Divine chocolate has a very high ranking score for performance, which takes into account both rate of sale and loyalty of the people who buy the product. Divine has a very loyal customer base”.

Bruce Crowther is a Fairtrade Campaigner from Garstang Lancashire, previously Head of Oxfam campaigns in Garstang and now Fairtrade Foundation’s Fairtrade Towns Co-ordinator.
2.3 To be highly visible and vocal in the chocolate sector and thereby act as a catalyst for change

2.3.1 From this M&E study research it is evident that Divine has influenced the strategies and policies of other companies in the UK Confectionery industry, one leading retailer commented, “Working with Divine Chocolate has been a real learning process for us, it has assisted in helping us look at our other supply chains and raise our ethical standards”. One of the UK’s leading coffee chains commented that “Working with Divine on Fairtrade chocolate has provided us with access to the ‘Fairtrade Community’ which is a diverse group of individuals, NGO’s, companies and opinion formers. Being a part of this broad group is healthy and provides us with the opportunity to understand and contribute to the debate”. Both The Co-operative Retail and Waitrose specifically mentioned the positive influence of Divine Chocolate on second tier manufacturers such as Ashbury’s. The Co-op highlighted the increased dialogue about Fairtrade from such second tier manufacturers due to the work of Divine. One retailer commented on the acquisition of Green & Blacks by Cadbury Schweppes as an indicator of Divine’s impact.

2.3.2 Another avenue of impact identified is the work of Divine Chocolate with young consumers. A major branded multi-national manufacturer of chocolate explained that “Divine’s work in schools has had an impact; every week we receive letters from school pupils asking us to develop Fairtrade chocolate products”. It is important to note here that Divine in partnership with Comic Relief launched a Fairtrade Education pack into 15,000 schools in 2001. The same branded manufacturer also commented “Divine, Café direct and the Fairtrade Foundation have raised the consumers’ awareness of both developmental issues and where products come from this has influenced our own debates internally about our own supply chains”.

2.3.3 There is also more evidence that Divine’s impact going beyond confectionery. The Co-operative Retail Group explained “Divine’s impact on our business strategy is significant, we would not have developed our own label Fairtrade CoVee range if it was not for our success on Fairtrade Chocolate, which provided the business case. Our sales of Fairtrade chocolate show a 35% growth above sales of our previous own label range”.

2.3.4 There is also some evidence of Divine having some influence in the way smaller suppliers work with larger retailers. One retailer explains “The relationship is a real partnership with Divine. We both have a shared vision and a shared ownership perspective of key issues. Discussions are easier and there is a greater degree of flexibility in the relationship in comparison to the major players, which actually means the relationship between us and Divine is stronger. For example the relationship with the major players is based on the need to make more money. With Divine it is a different level of relationship, of course there is a need to make money but what we are doing together is much broader than just making money”. This aspect of building relationships will be investigated further in the second iteration.

2.4 Conclusion so Far from Monitoring and Evaluation Study: So what has been the impact of DfID’s loan guarantee facility for Divine Chocolate Limited?

2.4.1 In summary, the success of Divine Chocolate in the mainstream shows that an alternative business model that challenges the conventional international trading system can work. Both its links with producers via farmer ownership and excellent product quality have been essential to its success in the mainstream. The wider distribution created by mainstreaming enables Divine Chocolate to speak to a greater number of people and organisations, gaining their attention because of their mainstream presence. This strategy has enabled Divine Chocolate to strengthen the original ethical interest of the FT venture by bringing a positive influence to other stakeholders including consumers, retailers, wholesalers and competitors. These aspects will be explored further in the second iteration of this study.

Bob Doherty
February 2007

Memorandum submitted by Tropical Wholefoods/FM Foods Ltd.

1. Background

1.1 Tropical Wholefoods is a Fair Trade brand of food products on sale in the UK. Started in 1990 by Adam Brett and Kate Sebag the company now employs 35 people in England and has developed businesses in Uganda, Pakistan, Burkina Faso, Tanzania and Zambia which employ many more.

1.2 Tropical Wholefoods is one of the leading Fair Trade businesses in the UK and pursues a positive development role in its business practices. While other Fair Trade companies often purchase products from existing businesses in less economically developed countries (LEDCs) Tropical Wholefoods goes one step further by assisting new businesses to start up.

1.3 Over the history of the company Adam Brett has worked with a number of DFID development projects.
2. **Critical Constraints on Enterprise Development**

2.1 We strongly believe that enterprise development is at the root of all development. Without healthy businesses providing products and services, creating employment for their communities and paying taxes to their governments no economy can prosper.

2.2 Entrepreneurs in LEDCs face a huge up-hill battle developing new enterprises in a context of a globalized world economy where from day one they face intense international competition. They also face the likelihood of massive fluctuations in the sale price for their products due to world commodity price fluctuations. This means a product that is profitable in one season may be loss-making in another. Finally, they face a legislative environment which is constantly changing, throwing up new requirements and restrictions.

3. **Fair Trade as a Partial Solution**

3.1 Fair trade aims to level the playing field and institute ethical rules for the operation of international business, thereby removing key barriers to development in LEDCs.

1. Fair Trade businesses do not have to cope with massive fluctuations in the value of the products they sell, as fair trade prices are managed and vary gradually, in line with market demand. In place of price, demand acts directly to alter levels of production through advance orders placed by fair trade businesses.

2. Fair Trade businesses assist their partners in LEDCs to cope with other non-price barriers to entry such as quality standards, organic certification etc.

3. Fair Trade businesses transfer technology and skills to their LEDC partners to ensure they are fit to operate effectively in the market-place.

4. **Trade Justice**

4.1 The term “Trade Justice” became a buzz-word during the Make Poverty History campaigns. Fair trade businesses see Trade Justice as a fundamental human right. It should not be allowable or acceptable for the economically powerful to benefit unfairly in the context of trade or commerce.

4.2 The present global trade network frequently allows injustice to occur in trade which if it were duplicated in other contexts would create outrage. Imagine an employer who regularly reduced their employees wages to 30% of the agreed wage. Or an employer who regularly changed the rules of employment for their employees without consultation. Such behaviour towards staff would be totally unacceptable, yet occurs regularly in international trade between the powerful buyer and weaker selling partner in the trading relationship.

4.3 The Fair Trade movement sees itself as the first step towards the creation of a more just system of international trade.

5. **Potential for Government Action**

5.1 Tropical Wholefoods has worked with DFID and DFID funded organisations in many countries since 1990 on projects to develop enterprises, develop Fair Trade or provide training to LEDC entrepreneurs.

5.2 Tropical Wholefoods has also worked with other funding bodies from other countries, including DANIDA (Danish), USAID (American) and GTZ (German).

5.3 None of these experiences has been wholly positive, and there have been frequent failures and problems. In general this seems to be a very difficult area for Government intervention.

5.4 In contrast Tropical Wholefoods has worked very effectively with the DTI, local and regional Government in the UK in the development of our UK business. Tropical Wholefoods has a UK factory, employing 35 staff. Interestingly Tropical Wholefoods has always found it relatively straightforward applying for subsidy, grants and developments support (training, information etc) within the UK for our work as a UK business.

5.5 It has always been far harder (at every stage: application, assessment, implementation and final auditing of results) to gain subsidy, funding or support for our international development work.

5.6 If we could see one simple thing changed in the way Government approaches International development it would be to make it more similar to the way Government currently supports National development.
5.7 National development grants and awards tend to be characterized by the following features:

1. Grants and awards are transparently described and tend to exist as clear “pots” of funding with clear, concrete functions. ie “EU Funds to support factory infrastructure: 25% co-funding” provides small factories in the North East of England with 25% subsidy towards the cost of their factory building.

2. In the UK the application process usually involves a member of UK civil service visiting the applicant, making an assessment of their needs and assisting them to complete an application process. The application form is usually a simple form, and the applicant needs no special skills to complete it.

3. Grants and awards are given directly to operational businesses for concrete activities rather than being given to agencies or organisations to implement projects.

4. Applicants are usually told quickly whether their application has been successful and how much money they will receive.

5. Usually funds are given out on a “first come first served” basis. If the “pot” of funding runs out no further applicants are encouraged to apply. This allows funds to be dispatched quickly, without the need for time-consuming rounds of applications, reviews, deadlines etc.

5.8 All these features ensure that it is relatively straightforward for UK businesses to apply for available subsidy. They do not waste time making unnecessary applications and they are told quickly what funding they are likely to receive.

5.9 In contrast International development grants lack virtually all of these features.

1. UK based funds tend not to be fuzzy and confusing. Compare this with equivalent DFID funds: “The Development Awareness Challenge Fund” or “the Business Linkage Challenge Fund”, whose purpose is hard to determine. I challenge anyone to read to descriptions of the purpose and rational of DFID funds (which are on the relevant web-pages) and give a concise explanation of their purpose.

2. Applications are undertaken with DFID priorities rather than applicants priorities at the for-front.
   — Applicants get relatively little assistance with application forms, and these forms are more complex, including elements like Log Frames which are only understood by highly trained professionals.
   — Applications are managed in “rounds” with deadlines, so that applicants get the money when DFID wants to give it out rather than when the applicant need it.
   — The ambiguous nature of most of the funds means that it is rare that an enterprise can apply and hope that their funding needs can be usefully met within the terms of the fund.

5.10 This has lead to a situation where DFID grants are paid, in large part, to organisations who are dedicated to working for DFID. These organisations are the only ones that understand the complexities of the application process and are willing to wait over the long time-scales and uncertainties of DFID funding rounds.

5.11 While many of these organisations do good work, it is not our opinion that this represents the best possible use of the funds for development purposes.

6. Answers to the Specific Questions of the Committee

1. Impact of donor funding on fair trade?
   — Some additional funding to the Fairtrade Foundation.
   — Little else.

2. How best can donors help to develop fair trade consumer markets in both developed and developing countries?
   — Continue to support the idea of Trade Justice and international agreements that put a priority on ethical/fair trade.
   — Provide direct support to LEDC Fair Trade businesses, using the types of funding method used for UK businesses and described above.
   — Strongly support reduction of tariff and non-tariff barriers to trade.
3. **Mobilising producers to improve Product Quality?**
   
   — Provide direct support to LEDC Fair Trade businesses, using the types of funding method used for UK businesses and described above.
   
   — Reviews of the escalation of legislation around food quality in the UK and EU. It should be required that if a piece of new legislation threatened an LEDC producer then EU governments responsible for the new legislation should fund improvements for the LEDC producer, and give them generous timescales to improve their standards.

4. **Ethiopian Coffee Trademark Dispute?**
   
   European food producers are widely protected with terms like “Champagne”, “Parma Ham” etc. These protections are seen as valid ways of reducing “rip-off retailing.” No such protections seem to exist for LEDC producers. Perhaps this situation should change. Certainly moves must be made to ensure that EU corporations are not able to trademark LEDC assets. It would be clearly unjust for a UK business to own the trademark for Ethiopian Coffee for instance, and this principle ought to be extended to other indigenous food products and marks.

5. **Tariff regimes?**
   
   Tariffs rarely work in favour of poor producers from LEDCs, the example of bananas is highly atypical. In most instances poor producers would prefer to see tariffs lowered and reduced.

   However, tariffs represent only the tip of the legislative ice-berg, and non-tariff barriers to trade are probably now far more important in terms of their impact on poor producers.

6. **Guidelines provide an enabling environment?**
   
   I don’t know.

7. **Role of Supermarkets/retailers?**
   
   Supermarkets simply meet the needs of consumers as cost effectively as possible, while acting within the bounds of ever-extending legislation, therefore in large part their behaviour simply reflects the desires of consumers and government. Larger retailers do exert significant “buyer power” which can be destructive, more carefully thought out rules on Trade Justice and allowable ethics in international trade could well reduce this. Recent consumer interest in Fair Trade has lead to a “rush to Fair Trade” by many retailers and supermarkets which is welcomed, but there is no saying whether it will last or not, as supermarkets will always be ready to throw Fair Trade products out of the door to replace them with products that meet the needs of the next wave of consumer interest.

8. **Trades Unions?**
   
   I don’t know.

9. **Distinguishing Fair trade brands?**
   
   I am not convinced there is a role here for legislation. The modern media is extremely quick in “naming and shaming” companies that falsely identify products from any product category. Fair Trade/Trade Justice/Ethical Trade is a very young and as yet only partially formed concept. If you ask five fair-traders what fair trade is you will receive five different answers. If an attempt was made to legislate a “meaning” to Fair Trade now it could be highly problematic. I believe it is better to wait for the environment to settle before such an effort is made.

   Adam Brett
   January 2007

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**Memorandum submitted by Twin/Twin Trading**

1. **TWIN**

   Twin/Twin Trading is a leading producer-driven Fair Trade organisation, which works with over 350,000 smallholder producers in Africa, India and Latin America, to facilitate access to Northern markets. Twin’s activities focus on strengthening producer organisations (eg democratic governance, product quality, business efficiency, ability to influence policy) through its Producer Partnership Programme and on creating market access for smallholders through Twin Trading. Twin also has an impressive track record of helping to capture greater value for producers primarily through the development of producer owned brands, eg Cafédirect and Divine Chocolate, AgroFair and most recently the Ethical Nut Company.
2. **DFID Support to Twin/Twin Trading**

DFID ongoing support to Twin includes:

(a) AG 3822 Fairtrade Chocolate Monitoring and Evaluation Programme, £67,300, made to assess the impact of Day Chocolate and Kuapa Kokoo on farmers’ livelihoods (This grant was made in conjunction with a loan guarantee to The Day Chocolate Company in 2000, to enable Day Chocolate to access start-up finance and develop a relationship and track record with a conventional commercial bank).

(b) Regional Trade Facilitation Programme, £145,230, strengthening nuts producers in Southern Africa and the establishment of the Ethical Nuts Company.

(c) Regional Standards Program application no 7620/006, £17,860.

(d) CN 055 Travelling Fair: Developing and Marketing Tourism ventures with Southern communities in Peru and Tanzania, £317,200.

3. **What has been the Impact of Donor Funding for Fair Trade?**

While not huge in scale this support has been strategically important in capturing greater value for producers in the south in the following ways (references to specific programmes are included in brackets):

— Through supporting the work of Twin and its brand partners, DFID has contributed to significantly increasing financial returns to farmers through the Fairtrade minimum price, as well as additional premiums paid by our brand partners (often 10% above the Fairtrade minimum price) and enhanced quality premiums (b, c).

— Capacity development support: all of Twin’s brands invest a significant proportion of their profits back into the **Producer Partnership Programme**. Amongst other things this has helped to strengthen democratic and participative governance structures. This strengthening of civil society can feed directly into macro governance initiatives (b, c).

— This empowerment at a local level is complemented by the fact that our brands all have elements of producer ownership. Producers not only share in decision making, are represented directly on Boards and have the ability to hold northern based companies to account they are now beginning to see a financial return from their ownership. In the last two years, both Caféjacuteldirect and Divine Chocolate have established a market value turning the producers’ shareholding into a valuable asset and they have also seen the payment of dividends. DFID support to the creation of Divine Chocolate and now the Ethical Nut Company (through funds secured through the RTFP and RSP programmes) has clearly helped in this (a, b).

— Despite these significant impacts perhaps the biggest impact has been on conventional trade. Whilst few attempt the transformation in trading relationships summarised above the dramatic increase in consumer awareness and the response to this has demanded from the conventional sector has been significant. Twin and its brand partners, with the support of DFID, have been significant catalysts for change (a, b, c).

— Promoting diversification: to reduce market vulnerability of producer organisations by diversifying their areas of expertise and potential income streams (d).

4. **Meeting the Challenges Faced by Small Producers**

There is much more to do be done: 80% of small farmers remain unorganised and increasingly powerful (often multinational) intermediaries threaten established producer organizations. The entrance of new players (eg supermarkets and new labeling schemes) has created pressure on existing marks/schemes to alter their focus (often to the detriment of small producers) and is in danger of confusing the consumer.

It is even more important now that Twin/Twin Trading and its brand partners remain innovative and continue to set the standard by which trade is carried out.

5. **DFID Support in the Future**

DFID has a potentially significant role in this. It is important that it recognises the differences within the ethical and fair trade movements and that it supports in particular those organisations that seek to actively promote development though trade and secure greater resources and power for producers in the value chain. In particular:

— Support from DFID of a capital nature would help to develop and establish producer-owned brands or marketing initiatives more effectively and efficiently).

— Our partners remain weak and vulnerable in a rapidly changing world. Twin plays a unique role in working with the producers to deal with change as and when it occurs. Twin’s unique relationship with producers makes it ideally placed to deal proactively with changes in the political and commercial environments.
— Our partners often struggle to find trade finance at reasonable rates. Interest rates at +20% make their organisations extremely vulnerable to unfavourable trading conditions or externalities beyond their control. DFID could help to facilitate access to multi-donor trade finance.

— Interpretation of EU procurement legislation in the UK makes it difficult for public sector bodies to favour organisations committed to producer empowerment in their procurement policies; we see that DFID has a role in advocating that this be changed.

— Ensure that macro-level policy discussions consider small farmers. Twin can facilitate participation of producer partners in a range of fora and sees that DFID has the ability to facilitate key linkages to enable producers’ voices to be heard.

— We believe that south-south exchange can add significant value to small holder producer organisations. Helping facilitate and promote these in existing or new programmes would be a significant contribution.

6. CONCLUSION

DFID’s support to Twin and its Fair Trade partners has had a real and demonstrable benefit to producers in developing countries. We urge DFID to continue this support and seek to particularly strategically support those organisations who aim to change the way in which trade is conducted and act as catalysts or champions for change within the commercial world.

February 2007

Email to Ann McKechin MP submitted by War on Want

We have become aware that Tesco appeared before the International Development Committee on March 13th 2007 in regard to a discussion about Fair trade. In particular you asked Tesco about their response to the allegations made in a report by War on Want on garment workers called Fashion Victims.

Labour Committee member Ann McKechin turned to Tesco, questioning Ms Reynolds about the company’s response to allegations relating to the treatment of employees in some of its suppliers’ factories in Bangladesh.

Ms Reynolds stated that Tesco had conducted an investigation after being made aware of these allegations. This had involved the employment of independent auditors, she pointed out, adding that no evidence had been found to support the claims.

I am writing to inform you that the response from Tesco is to put it mildly blatantly misleading and is completely contrary to what Asda (also named in the report) have said to us in face to face meetings.

Tesco along with the other companies named in the report (Primark & Asda) were informed that the interviews with garment workers in the report were done on a confidential basis to protect the jobs and livelihood of the workers involved. The key point was that the poor working conditions for garment workers identified in the report were systemic across the garment industry hence the interviews being done with 60 workers across six factories.

Asda were quite happy to meet with us face to face without being informed of the individual factories. Importantly they agreed with us the conditions were appalling and then set out what they were doing to rectify the situation. Tesco despite being told about the need to protect the confidentiality of the workers interviewed insisted on being told which factories were involved and refused to meet face to face.

Tesco claim they have done independent audits that give them the all clear. This is a completely disingenuous claim for Tesco to make considering we didn’t disclose which factories we had targeted and they had refused to meet with us to discuss our findings.

A more significant point as our report highlights is that there are fundamental flaws with the way that garment factories are audited according to garment workers. This is because the factory managers are warned in advance about audits and workers are coached as to how they should respond. This is why we made the point about the need to support trade unions on the ground to give the women workers a strong and united voice to challenge factory owners.

For us the failure of these voluntary ethical codes of practice and the flaws with the audit process highlight the need for the government to support legislation to allow workers overseas exploited by UK companies and their suppliers to be able to seek redress in UK courts.

I am not sure what opportunity we have to challenge the claims made by Tesco but I would appreciate being given the opportunity to do so.

March 2007
Memorandum submitted by Zaytoun

Zaytoun is an IFAT member and a pioneering three-year-old company working with Palestinian agricultural communities to develop and sell their produce. Principally we have focused on extra-virgin olive oil, our flagship product, but we are expanding our operations to include other produce from different communities. Alongside the Fair Trade Foundation, we have been working on the development of Fair Trade standards for olive oil—a new product for the fair trade market. Our work in a war zone has had implications for this development, as the physical presence of Fair Trade inspectors has not always been possible due to safety concerns. There is an added dimension to working with fair trade principles in this environment, however, which broadens the philosophy of the movement to take in more than economic principles. We believe in the power of our products to tell the simple story of the producer to the consumer, thereby building links that cross the divides of religion and race.

The following contribution to DFID’s inquiry includes statements from our producers and partners in Palestine, as well as our own experience as a UK company dedicated to the principles and practice of fair trade.

To date, there has been over $10 million in NGO funding for increasing capacity of Palestinian olive oil producers. This input is to be welcomed, with the caveat that it would be more effective if there were to be greater harmonization between donors and their programmes, and more consultation with the recipient farmers in order to fit in better with their planning.

Help needs to be focused on programmes which build the long-term capacity of producers to meet the stringent standards of the international market. To this end, projects which improve the technical and physical infrastructure of producing communities are beneficial—for example, provision of funding for agricultural equipment and research, and the training of producers in technical, marketing and administrative areas. This will enable the inclusion of an increasing number of small-scale producers in the growing fair trade supply chains. Fair trade produce should be of a consistent high quality—producers new to the European market may need assistance to understand and implement international standards. In some cases it may be that international quality standards work against the inclusion of produce from new countries by not taking into account the difference in traditional varieties of crop—in this case a programme of research work should be identified and supported by donors.

Greater support of the establishment of links between producers is beneficial, allowing for greater collective strength in negotiations with government and private agencies. There have been a number of Fair Trade events in Palestine which have served to bring different producer communities together—the benefits of these events can be multiplied through ongoing programmes of support for educational and marketing activities.

Promotion through the presence of producer companies at Fair Trade and quality food events in Europe can be supported through donor funding, and active links between producer and consumer through support of overseas marketing initiatives would further increase market share of Fair Trade products.

Whilst the development of standards for a recognizable fair trade mark is to be commended, it is also our experience that the rigid application of these standards can prejudice against the small farmer. A certain amount of investment and capacity is needed to enter the highly regulated fair trade market in the first place, and different countries have different organizational cultures. Producers may organize in the classic cooperative model for example, which is well recognized by current European fair trade initiatives, but NGOs in Palestine have also played an important role in the support and development of farming. The fair trade supply chain model should take these differences into account when working alongside new producer communities.

March 2007